

# ACCOUNTANCY

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## PROFESSIONAL NOTES

### Solicitors' Accounts

The Accountant's Certificate Rules have been made by the Law Society under Section 1 of the Solicitors' Act, 1941, and are now in force. Every practising solicitor is required to have his accounts examined by a qualified accountant and to deliver an accountant's certificate every year. The new Rules are discussed in our Editorial on page 334, and the text is reproduced on page 349. The Law Society has issued a booklet which will be helpful to all accountants who have solicitors among their clients; copies are obtainable from Incorporated Accountants' Hall.

### University of Cambridge Department of Applied Economics

Mr. F. Sewell Bray, F.S.A.A., F.C.A., has been appointed to the staff of the Department of Applied Economics in the University of Cambridge with the status of a Senior Research Fellow appointed by the Nuffield Foundation. Mr. Sewell Bray is a partner in the firm of Messrs. Tansley Witt and Co., and was joint author of the book "Design of Accounts," published for the Incorporated Accountants' Research Committee. Mr. Bray will be doing research work on the subject of Social Accounting. The appointment marks an important development in relations between the universities and the accountancy profession. It is hoped that it will lead to further research on many

important subjects which are common both to economists and to accountants. The appointment will afford much satisfaction throughout the profession.

### Company Law Amendment

The King's Speech at the opening of the new session of Parliament announced that legislation would be introduced to provide for the amendment of the Companies Act. The Government have previously stated their approval of the recommendations contained in the Report of the Cohen Committee and their intention to ask Parliament to give statutory effect thereto. The text of the Bill will be awaited with interest, and will be the subject of comment in our columns in due course.

### Reform of Taxation

The Incorporated Accountants' Research Committee invites comments and suggestions from readers on the memorandum on Reform of Taxation, which we publish on page 339 of this issue. This was drawn up as a result of a meeting, held under the auspices of the Research Committee, at which a number of distinguished economists and members of the accountancy profession were present. It is now published not as a statement of definite conclusions, but to suggest lines of thought for further investigation and research.

### Exchange Control Bill

The Exchange Control Bill has been described as "a conservative and consolidating measure." It re-writes, in permanent statutory form, the wartime powers of exchange control exercised under the Defence (Finance) Regulations. There are some omissions, and one or two new features. Among the latter, the control of bearer securities and of foreign securities for which there is no British register is designed to prevent leakage of capital on a large scale from this country. Post-war exchange control, in fact, will have a different objective from wartime control. Then, in addition to avoiding large-scale capital movements, the objective of control was to garner every possible dollar to strengthen our exchange resources. But as from July next year, Britain has undertaken the commitment, under the Anglo-American Financial Agreement, to make all sterling arising from "current" transactions freely convertible into other currencies on demand—in practical terms, to exchange them for dollars. The object of control will therefore be to ensure that only current transactions are allowed to pass through the mesh of the control. Even with the assistance of the American and Canadian credits, Britain's supply of dollars will be scarce in relation to her requirements. The current account transactions which will be payable in dollars on demand will be limited, as now, by the functioning of import licensing—applied without discrimination as between different exporters to this country. The Bill must be accepted as a necessary measure to protect the British economy from insupportable exchange pressure, and in the words of the accompanying White Paper, "to enable us to pay our way abroad." It will arouse nostalgic regrets among all who remember London's proud position as the world's banker. There may also be some who question whether the countries composing the sterling area are equally well placed to protect the pound.

### Costing and Monthly Accounts

We have received a copy of the duplicated brochure issued on September 27 on the occasion of the visit to the factory and offices of the Ford Motor Co., Ltd., Dagenham, of a party of members of the Incorporated Accountants' Students' Society of London and District. The visit was recorded in our last issue. The brochure is an excellent description of the company's manufacturing costing system, which is an integral part of the double-entry accounting system. A complete profit and loss account and balance sheet for each month is prepared within ten days of the end of the month. The cost of every item, including overheads, is debited to "merchandise account." From the detailed costing records, a computation is made of the cost of goods sold, and this is debited to profit and loss account as "cost of sales," and credited to merchandise account. A physical stocktaking is carried out at the end of each financial year. Discrepancies between the value so determined and the balance on merchandise account are in practice so small that the monthly accounts are virtually as accurate as if stock could be taken and valued every month.

### Finance for Smaller Businesses

A substantial annual volume of new business is the prospect envisaged for the Industrial and Commercial Finance Corporation, Ltd., by its Chairman, the Right Hon. Lord Piercy, C.B.E., in his statement at the first annual meeting. The report and accounts from the date of incorporation, July 20, 1945, to September 30, 1946, show a loss of £29,000, owing to the small amount of income which became payable in the first year. The I.C.F.C. was formed to provide capital for concerns requiring between £5,000 and £200,000. These are mainly private companies engaged in manufacture, but no type of business is excluded. Of 703 applications conclusively dealt with in the first year, facilities were granted in 133 cases, or about 20 per cent. Advances approved aggregated £5,071,000. Of these, 79 per cent. in number and 43.4 per cent. in value were sums not exceeding £50,000. In deciding the form in which advances are to be made, the I.C.F.C. tries to devise facilities to meet the needs of each customer. These have included debentures and secured loans; unsecured loans; redeemable and non-redeemable preference and participating preference shares; and ordinary shares. Where resources are required for new developments or new enterprises involving large risks, or where the I.C.F.C. is to provide a substantial part of the total capital funds, it is considered preferable to stipulate for part of the equity rather than to add to the fixed burdens of the concern by charging a high rate of interest. Particular consideration is given to proposals from the development areas. The aim is to supplement and not to replace existing institutions; but it is felt that in this part of the investment field there is an inadequacy of funds, particularly as high taxation has reduced the resources of direct private investors, while the rise in prices has made requirements larger.

### Disqualification for Appointment as Auditor

There has been some discussion recently in regard to the position of a practising accountant, who, being already the auditor to a public company, was also appointed registrar. Section 133 of the Companies Act, 1929, provides, inter alia, that a director "or officer" of a company shall not be qualified for appointment as auditor, and the question arises as to the correct interpretation of the word "officer." It has been held that a person who is appointed and paid by a company, whose function is to act on behalf of the company to check the directors, and whose appointment is not made on a special occasion for a special limited purpose, but under regulations governing the constitution of the company, is an officer. There is, however, no definition of "officer" in the Act, and auditors of a company as such have been held to be "officers."

The matter is, therefore, one of some difficulty, but it is considered that a registrar of a company who was appointed and paid by the company would in all probability be regarded as an officer and as such would therefore be disqualified from acting as auditor under the provisions of Section 133 of the Companies Act.

There are, however, cases where a company



appoints an independent firm of accountants to act as registrars (of the company), and it might be argued that in such a case the accountants were not officers of the company as they were employed in a professional capacity, and part of their functions would be to act as registrars to various companies, by none of whom could they be regarded as being in their direct employ.

There is no Court decision relevant to this point, but there seem some grounds for the opinion that it may be undesirable in all circumstances that an auditor of a company should also act as its registrar, having regard to the functions performed by the latter.

#### Advertising Expenditure

About £90 million per annum was spent on advertising in the years before the war. In 1935 the total amounted to 2.2 per cent. of the net national income, compared with 3 per cent. in the United States. The National Institute of Social and Economic Research has recently completed an investigation into "The Statistics of Advertising," and its report will be published next year by the Cambridge University Press. It finds that about three-quarters of the total revenue from advertising was received by the printing and publishing industry, including newspapers and periodicals and general printers, and about 15 per cent. by advertising agents, consultants, and departments. Press advertising was widely distributed over all classes of goods and services, while in outdoor and radio advertising food, drink, and entertainment predominated. Persuasive advertising directed to the final consumer accounted for £50 million of the total expenditure, while the remaining £40 million represented informative advertising in retail trade, travel, transport, entertainment, real estate, trade and technical matters, and finance. Advertising directed to the final consumer formed only about 1.7 per cent. of the total consumers' expenditure on the goods and services concerned, but in the case of medical goods it rose to approximately 25 per cent. The total purchase price of newspapers and periodicals sold in 1935 was £56,700,000, and £48,400,000 was paid by advertisers for the purchase of space. The decline of £6 million in newspaper revenue between 1935 and 1943 was largely attributable to the reduction in display advertising, which in the national and London daily papers fell to 36 per cent. of the 1935 level. The report suggests that inquiries at regular intervals addressed to a limited number of sample firms would provide useful information to advertisers and to sellers of advertising, and would be of assistance in forecasting economic trends.

#### Equal Pay

If any had expected that the Report of the Royal Commission might aptly be entitled "From slogan to solution," they will be disappointed. It is "a factual survey" and an "examination of consequences" likely to result from the abolition of discrimination in pay for the *same work*, whether performed by men or women. And, indeed, the Commission was not asked to make recommendations.

The distinguished personnel of the Commission, under the chairmanship of the Hon. Sir Cyril Asquith, have been at pains to disentangle the strands of prejudice, superficiality and fact with which the subject had been enmeshed. Yet the main Report is subject to an important memorandum of dissent on the explanations and consequences to which the majority subscribe. As an indication of the difficulty of the whole question, we may quote the dissentients: "Our reading of the evidence is different from the majority." "The majority do not base their case mainly upon the evidence." "They appear to rely chiefly upon an *a priori* argument." Further, the dissentients suspect that many of the views of witnesses are "rationalisations" which apparently distinguished inadequately between opinions and evidence. Is it unfair to suggest that even the dissentients have not been entirely uninfluenced by "rationalisations"? Although the Report is rather heavy reading and characterised by verbalism, it presents a thorough analysis of the complicated economic and social considerations which enter into the question and calls for careful study.

Some interesting facts and tendencies emerge from the report. The factor of "dependency" arising from the responsibility for dependants borne by women who work is greater than was commonly supposed. But family responsibility of married men cannot be dismissed, and is a substantial, if not a preponderating factor. The report points out that more persons depend on the man's rate of pay than on the woman's rate, and that the average woman is not in employment at all.

Much consideration was given to the position in the Civil Service, and the conclusions reached seem to suggest—though not without qualification—that a policy of equal pay may be contemplated at a cost of £5 to £10 million per annum.

The analyses in other directions led to no comparable suggestions. Attention is called to the general effect of a policy of full employment. The economic issues are not at all simple, but it is thought that such a policy would prove a powerful ally to other forces, promoting a higher valuation of women's work. The terms of reference did not call for an assessment of the claims of exact justice and economic progress. The Commission observes, however, that the achievement of perfect justice may be scarcely compatible with free choice of occupation and with changes in technique and demand, and that there is "a clash of equities." The alternative to a policy of equal pay in industry and commerce is not necessarily the absence of any policy as regards the status and wages of women. There are favourable influences in raising the demand for women's labour, and there is much scope for bringing them to favourable fruition. The facts of marriage, interruption or cessation of work after training, family responsibility, and the justifiable claims of women who have a career and useful work suggest that there is no single and clear answer to the question.

# ACCOUNTANCY

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## SOLICITORS' ACCOUNTS

The Law Society has issued an explanatory Memorandum with the Enactments (Annotated) relating to Solicitors' Accounts. In addition to the introductory comments the booklet includes the text of the various Rules relating to Solicitors' accounts, the sections of the Solicitors Acts, 1933, 1941 and 1945 concerning accounts and the new Accountant's Certificate Rules.

The earlier Rules have been discussed in our columns from time to time, but the Accountant's Certificate Rules are entirely new. They came into operation on November 16, 1946. These Rules are reprinted in this issue, but in the booklet there are important notes appended to each Rule by way of clarification. The notes are to be considered as memoranda for the guidance of solicitors and accountants only. In future, the granting of a practising certificate to a solicitor each year will be dependent upon the production of an accountant's certificate, with limited exceptions. The principles underlying the Accountant's Certificate Rules were, in a large degree, settled by Section 1 of the Solicitors Act, 1941, which provided for the making of these special Rules and the principal matters to be dealt with therein.

Considerable interest will undoubtedly be aroused in the accountancy profession as to the extent of the examination to be undertaken by the accountant before he gives the requisite certificate. The 1941 Act merely stated that the Rules should prescribe the nature and extent of the examination to be made by an accountant of the books and accounts of a solicitor, or his firm, and of any other relevant documents, with a view to the signing of a certificate. The Rules now provide that the accountant shall not be required to do more than (a) make a general test examination of the books of account of the solicitor; (b) ascertain whether a client account is kept; (c) make a general test examination of the bank pass-books and statements kept in relation to the solicitor's practice; (d) make a comparison, as at not fewer than two dates selected by the accountant, between—(1) the liabilities of the solicitor to his clients and, if trust money has been paid into the client account under the Solicitors' Trust Accounts Rules, to the

*cestuis que trustent*, as shown by his books of account and (2) the balances standing to the credit of the client account; and (e) ask for such information and explanations as he may require arising out of (a) to (d) above. If, after making the examination, the accountant is not satisfied that the Solicitors' Accounts Rules have been complied with, it becomes his duty to make such further investigation as may be necessary to enable him to sign the accountant's certificate.

The form of accountant's certificate is naturally related to, and must be read in conjunction with, the various Rules and enactments concerning solicitors' accounts. The form provides for a clean certificate but, alternatively, for two degrees of qualification. The first qualification relates to trivial breaches of the Solicitors' Accounts Rules which did not result in any loss to any client. The second qualification provides for the setting out on the back of the certificate of any breaches of the Solicitors' Accounts Rules which cannot be described as trivial within the meaning of the first qualification.

It is interesting to note a statement by the Law Society that the booklet has been approved by the various accountancy bodies "so far as it relates to the examination of accounts to be undertaken and the form of the certificate to be given by the accountant under the Accountant's Certificate Rules, 1946." From this it is an obvious deduction that the accountancy bodies have not given their approval to Rule 3 to the extent that that Rule gives power to the Law Society to disqualify an accountant from giving a certificate under these Rules. It is easy to visualise the difficult problem which faced the two professions in relation to this question of disqualification. On the one hand, the accountancy bodies would naturally desire that any question of disqualification should be left in the hands of the accountancy profession. On the other hand, the Law Society contend that one of the objects of the Accountant's Certificate Rules is to protect the Compensation Fund from calls upon it which would be avoided or reduced if irregularities were brought to light in good time; for this reason it was considered necessary by the Council of the Law Society that they should have a discretion to disqualify an accountant in the cases mentioned in the Rule. There is no need to magnify any divergence of view upon this point. The members of the accountancy profession will desire to assist the Law Society in their determination that the present high standard of probity amongst solicitors shall be maintained and enhanced. Compliance with the Solicitors' Accounts Rules is claimed to make it virtually impossible for a solicitor to confuse his clients' money with his own. It is realised, however, that rules, audits and inspections of accounts cannot eliminate the possibility of deliberate fraud but can assist in bringing fraud to light early, thereby limiting the extent of the defalcation.

The booklet, as a whole, and the Accountant's Certificate Rules in particular, will demand the close attention of every practising accountant who is called upon to examine or audit the books and accounts of a solicitor.



## E.P.T. Refunds

[CONTRIBUTED]

The Excess Profits Tax Refunds Advisory Panel has now issued the long-awaited Memorandum on the principles to which it will work in carrying out the duties laid upon it by the Finance (No. 2) Act, 1945. The memorandum is reproduced in full on page 342, and copies may be obtained free of charge from the Secretary, E.P.T. Refunds Advisory Panel, Treasury Chambers, Great George Street, London, S.W.1.

### Terms of Making Over

Paragraph 3 sets out the circumstances in which the refund may be made over by the person to whom it is due to another person, either unconditionally or as a loan. This, when coupled with the Chancellor's recent announcement in the House that in the case of nationalised businesses, he is to introduce legislation to enable the refund to be distributed in the liquidation of the companies concerned, indicates that the taxpayer is, in selected circumstances, to be allowed eventually to pocket the refund. It seems peculiar that a man carrying on the business in which he paid the E.P.T. must leave the refund in the business as a capital reserve (see paragraph 7), whereas if he makes it over to another person to whom he has sold the business, he can recover the amount after five years. This is in effect an outright sale of the refund for a deferred consideration.

Presumably the reasoning is that the loan can only be repaid by introduction of fresh capital or out of profits. That keeps the right view on the transferee, but we still are not convinced that the transferor's position remains perfectly fair as between taxpayers.

The question has been raised as to the position of the liquidator of a company. It appears from the terms of the memorandum that if the liquidator has sold the business, he can lend the refund to the purchaser for five years, keeping open the liquidation until that time so as to be able to distribute the repayment of the loan.

A liquidator cannot, of course, specify any but the original business to receive the repayment.

A personal representative of a deceased taxpayer can make over the loan in similar circumstances as part of the distribution of the estate, and will not need to keep the estate open.

### Use of Refunds

The Panel take a sound view of the refund, regarding its receipt as increasing the net worth of the business concerned. They will therefore expect it to be shown separately on the balance sheet. This requirement applies also where the refund is received as a loan (Par. 7).

The statement that the reduction of a bank overdraft or the discharge of other liabilities will be regarded as expansion of the capital employed removes a doubt that has bothered business men.

This statement appears to require some qualification. It is obvious that the reduction on an overdraft

or trade creditor must be of a permanent nature, otherwise the overdraft could later be increased to repay a partner's capital or to pay dividends. Presumably anything that happened before the announcement of the refunds can be ignored, although there may be anomalies, e.g., a partner who withdrew money early enough will be in a better position than one who makes the withdrawal now. The repayment of debentures, mortgages and loans seems clearly to be within the scope of the memorandum.

While the point is not specifically mentioned, it appears that the replacement of stock in trade on its normal basis, and the financing of trade debts, will fall within the allowable methods of expending refunds, since the net worth of the business is thereby maintained on its increased basis. The capital reserve on the other side is represented by the additional working capital. Stock is not a "charge to profit and loss account"; it appears in that account only as a means of charging against sales the cost of the goods sold.

Some doubts have been felt as to the position of a business which habitually writes off all new equipment against profits. It is thought that this would not prejudice the case where the new equipment was bought with the refund, because the real net worth has not been disturbed; there is a secret reserve of the amount written off, and the profits available to shareholders are correspondingly reduced. It is, however, necessary to issue a warning that, in view of the effect on future distributions—see the concluding words of paragraph 12—it may be advisable to consult the Panel before taking this course.

### Unused Refunds

The Panel will be assisted if any unused part of a refund is separately distinguished among the assets, and if reports of directors or the accounts indicate how a refund has been used (Paras. 15 and 16). Current opinion regarding disclosure to shareholders would, of course, make this desirable in any case.

The Panel also directs attention to the fact that where a refund has been set off against unpaid E.P.T., this is equivalent to a payment of refund. The refund should be set up in the accounts in exactly the same way as if it had been received as a separate repayment instead of having been set off.

Finally, the memorandum reminds readers that expenditure since April 1, 1945, counts as if expended after the refund is made.

We welcome the memorandum as a much-needed guide to business men. It removes most of the doubts and shows that the expenditure of the money can be made in any reasonable manner that does not reduce the net worth of the business, i.e., the capital plus reserves and other undistributed profits must not be reduced by the expenditure. If that viewpoint is kept clearly in mind, most of the questions that could arise will solve themselves.

# Budgetary Control and Predetermined Costs

By LAWRENCE W. ROBSON, F.C.A., F.C.W.A., and IAN T. MORROW, C.A., F.C.W.A.

Budgetary control, as it has now developed, has a great contribution to make to the economic welfare of this country. It is the major contribution that accountants have been able to make to industry.

Budgeting, in principle, is simple. It may be defined as forecasting production, sales and expenditure for as long a period as is practicable, and in such detail as may be required. Budgeting can be applied to all phases of the business, such as manpower, plant, space requirements, and so on.

Costing is a means to an end, and not an end in itself. The end may be higher profits; it certainly should be the elimination of waste and the attainment of high production. The conventional profit and loss account shows the profits made, but not the profits lost. One can only know what is lost and gained by setting up a target of standards or budgets against which achievement can be measured. When one can measure what one is speaking about and express it in figures, something is known about it. Vague generalities and opinions are not enough.

Many business men dislike the idea of budgeting because they have to commit themselves, but they will regularly compare this month's results with last month's, or this year's results with last year's, so they do accept the idea of a target.

## Information Necessary

If a business is to be run on facts, rather than opinion, the accounts and cost offices should provide the necessary information. It should be a matter of routine in every firm for the accounts and cost offices to check periodically on all returns issued to see if they are being used and fulfilling useful needs. Far too often returns, which were vital when first issued, have become dead, due to changing circumstances.

The returns necessary in a business will vary with the type and size of the business, and even with the temperament of the managing director. As a suggestion, the cost office should be able to supply, in collaboration with other departments:—

- (1) Cost of sales.
- (2) Periodical profit and loss accounts.
- (3) Statement of stocks and work in progress.
- (4) A means of cost control.
- (5) A basis for estimating.
- (6) A forecast of sales and expenditure.
- (7) Capital expenditure control.

## Budgetary Control

A properly designed scheme of budgetary control and predetermined costs will provide the basic information for these returns.

Budgetary control has suffered in repute because the schemes applied are often not suited to the particular business or they are compiled so broadly as to be of very little use for purposes of control. There is no royal road to success in budgetary control; it is hard detail work. In most businesses it is useless to fix rigid budgets for the purposes of control.

It may be possible to prepare budgets on this basis which would be reasonably correct over, say, twelve months, which from month to month would not be sufficiently accurate. Effective control can usually be achieved only by using flexible budgets. Flexible budgeting means the dividing of the expenses into three categories of fixed, variable, and semi-variable. These divisions are well known, and it is not necessary to elaborate them further.

It may be interesting to trace in outline the design, installation and operation of a scheme of budgetary control in a manufacturing unit, in which costing has been done previously either on a job costing basis or on historical process costing.

First of all some time would have to be devoted to studying the processes of manufacture, the factory layout, and the responsibilities of the different managers and foremen.

As the budgets are going to be used for control purposes, it is necessary to decide on the budget centres. These are largely determined by the physical layout and the scope of the control exercised by the foremen and under-managers. For example, in a textile mill the weaving shed might form a budget centre with looms only in it, whereas in another factory the pining might be done in the weaving shed. In this case the budget centre would cover weaving and pining.

Within each department or budget centre a code of processes has to be built up. These may cover machines or hand operations. Obviously, if similar processes are carried on in more than one department, care must be taken to see that the process groups are similar throughout the factory. These process groups are ultimately going to be cost groups, so that, while it is desirable that they should not be split up more than is necessary, every effort must be made to see that there will be no distortion of costs due to dissimilar machines having been included in the same group. If all the products pass through all the machines, then it does not matter if there is an expensive and a cheap machine following each other, but if some of the products pass through an expensive machine or a cheap machine, then the cost will be distorted if these two machines are not distinguished. On the practical side, another point to be watched is the ease with which production can be counted or measured.

In addition to establishing the process or cost groups and budget centres, a code of accounts has to be prepared, classifying all expenditure. Each class of expenditure should have the same code, no matter where it is incurred. For example service labour should have the same number in every budget centre, and should be distinguished by the budget centre or departmental prefix.

The design of the budgetary control begins to take shape; the budget centres have been established, also the cost groups and the expense classification.



### Setting of Standards

Production standards are established for all processes and for each process the expenses are budgeted. Obviously expenses must be related to production. If only 70 per cent. of the capacity is expected to be in operation, there will be a corresponding reduction in service labour, power and repairs, etc. Each item of expense must be carefully studied and a detailed budget made out showing either quantities of material or number of men and hours of work, whether the budget is fixed, variable, or semi-variable. If it is semi-variable the expense must be budgeted at different levels of activity. This must be done for every penny that is expected to be spent.

An important stage is the measurement of actual performance. Production in the average factory is so varied that physical units are not sufficiently consistent to be used as a measurement of performance. Thus, yards from a loom, or pounds of yarn from a spinning frame are no real guide to output. One hundred pounds of one yarn may be much more easily spun, and take even less time, than sixty pounds of a finer yarn with a higher twist.

A simple and easy way is to convert all production into expected time. Thus, all the production for one week can be converted to loom hours, or spindle hours, or whatever unit is required. So for each type of yarn there will be a standard expressed as so many hours per hundred pounds or per pound, and as the records of production are compiled, these would be converted to time by applying the standard factor.

### Predetermined Costs

So far, in the progress through this imaginary factory there has been established production for each process, in terms of standard hours, and the expected expenditure to achieve that production. The next, and final step, in the production of static budget information is to prepare predetermined, or budgeted costs for each standard process hour. This is done by pro-rating the general overheads to each budget centre and from there to each process or cost group. Thus, in a weaving shed there might be a rate for automatic looms, a rate for wide looms, and a rate for narrow looms.

When the budgeted rates for each process are calculated, a pre-determined cost for each product can be prepared, provided certain technical information is available. It is required to know the material to be used, quantity and quality, the processes through which the raw material will pass, and the standard time for each process. If these standard times are multiplied by the predetermined process hourly rate, the total predetermined cost will result.

### Cost Control

One of the main functions of any scheme of costing is to provide a means of cost control, and the following describes briefly the utilisation of budgetary control for cost control. The foregoing is largely the static side, which might be done once a year, or even less often.

In deciding under which budget centre expenses should be budgeted, care should be taken that the

amount budgeted under each budget centre is in the main under the control of the manager, or foreman, of that department. Heating would usually be done from a central boiler under the control either of the plant engineer or of the works manager, and the budget for heating should be in their section, and not split over the other departments. It should perhaps be made clear that for the preparation of product costs and costing rates it is so split, but for cost control it remains in the budget of the man who can actually effect savings.

The budget statement for a production department would show the direct labour and the indirect expenses under the control of the manager or foreman. The production per month would be converted to standard hours and compared with the budgeted standard hours to give the activity. This is perhaps an over-simplification, weights may have to be introduced. This would be done for each process and for the department as a whole.

Once the activity is established, it is possible to establish the allowed cost, that is, the amount that should have been spent for the activity achieved. Direct labour is simple, as it is directly variable with production. In the case of the fixed indirect expenses, these will not vary. In the case of the variable indirect expenses, the allowed cost will be normal budget multiplied by the percentage activity achieved. In the case of semi-variable expenses, the amount which ought to have been spent will be read off from the budget schedule which, as already mentioned, would show on it the amount to be spent at varying levels of activity.

The actual cost of each account number will be collected from an analysis of the wages, stores requisitions, invoices, cash, and so on, and this actual expenditure, compared with the allowed cost, will give the gain or loss under the control of the foreman.

The standard value of the production for labour and oncost of a department is the standard hours for each process multiplied by the predetermined rate for each process. The difference between this standard value and the allowed cost would be the gain or loss due to volume. This is, perhaps, made clear if a fixed expense of, say, £100 is considered. If the activity in hours is 125 per cent., then the value of the production with regard to that expense would be £125. The amount allowed for this account number would remain at £100 and the difference between the £100 allowed and the £125 standard value of production is £25 over-absorption of fixed expense due to volume.

Similar statements will be prepared for all groups of expense, such as the general works overheads, administration and selling, and finally the profit and loss account, which will show the sales for the month less the standard cost of these sales, which will give the expected profit, but there must be added or deducted, as the case may be, the gains or losses against budgets. These gains and losses will be shown as due to volume, efficiency, or over-expenditure.

The advantages of this type of control are that each executive is given a statement of how his own department is doing against an agreed standard. He is not given a multitude of job costs to look at, but

only a comparatively limited number of account numbers. These come out regularly, and any weakness is at once shown up. Under normal job costing, if a product is losing money, it is not known until the job is completed, and the job has been delivered to the customer. Under this type of budgetary control, as soon as a loss occurs in any process, it is shown up on the appropriate departmental statement. The more varied the production, the greater the advantages of budgetary control and pre-determined costs, because the executives, instead of having to think in terms of numerous product costs, are concerned with, in all, perhaps fifty or sixty processes.

So far, budgetary control has been discussed as a means of controlling costs of manufacture, but it is equally effective if applied to distribution costs. Selling and distribution costs are so often charged as a percentage, either of selling prices or cost prices. Distribution costs should be classified under their account headings and then carefully analysed to groups of products, a basis of allocation being applied most suitable to the expense in question. If the manufacturing cycle is a long one, and orders are taken well in advance of sales, it may be necessary to control the cost on the basis of orders taken rather than on sales delivered.

### Marginal Costs

Any scheme of budgetary control and predetermined costs should be designed to provide management with full information showing the cost of each product, analysed between strictly variable and fixed expenses. Marginal costing is valuable for policy making and control.

In running a business the decisions which have to be taken usually call for the acceptance or rejection of alternatives. This may mean the cutting of price on a single order, or expanding selling and distribution costs to keep the factory running, or deciding to maintain prices and close down part of the factory. The ordinary cost accounting data do not usually give the information necessary to make sound decisions; in fact, they may be misleading. The costs may show that the selling price is well below the cost, but to conclude that, by eliminating that particular product, the loss would also be eliminated from the accounts, would be wrong because, obviously, the fixed expenses included in the cost would go on whether the product was being made or not. Marginal costs, or, as they have been described in American papers, "the differential cost" may be described as the difference between the cost of producing a larger amount and the cost of producing a smaller output. The use of marginal costs would disclose the amounts by which an increase or a decrease in production is not matched by a proportionate increase or decrease in cost.

From the point of view of policy-making, the error in the normal cost reports lies in the fact that the first and last items of production are shown to have the identical cost. This information is useful in many ways, but, after the break even point, if prices are maintained, profit expands quickly.

In practice, great care has to be exercised because there is a limit to the amount which can be sold on a

marginal basis, that is to say, there is a stage when additional plant or double shift working must be put into operation, and this at once upsets the profit structure of the company because the fixed expenses have now been increased.

### Reports

An efficient cost system, to be effective, must be backed up by good reports. The best cost system must fail if inadequate reports make it inarticulate. The profit and loss statement should show the results of current sales operations, and the result of current production operations. The explanations which accompany any cost statements should not be rigid, nor should attempts be made to cover everything every month. The reports should draw attention to the exceptional items only, and they should be carefully designed so that each level of management gets what it requires.

It is relatively simple to design a cost report which will show up the cost of loss of volume where the volume falls below budget, but it is often forgotten that in fixing the normal volume it may be that the company has, in effect, resigned itself to carrying quite a large unused capacity. Provided the cost scheme is correctly designed, it is possible to say how many additional units could be produced for the same fixed costs, and the extra profit this would mean at varying price levels.

### Conclusion

Within the short compass of this paper it has been possible to give only an outline of the principles of budgetary control and predetermined costs. Undoubtedly, at the present time, there are a great many misconceptions existing about the utility of the technique of predetermined costing and budgetary cost control for jobbing and small-scale industries. It is, perhaps, not too much to say that with this advance, accounting has caught up with the other developments in the management field.

## Pottery Wages

A new wages structure has been agreed between the British Pottery Manufacturers' Federation and the National Society of Pottery Workers, and is embodied in a booklet, extending to 21 pages, of which we have received a copy. The wide range of processes covered by the pottery industry is reflected in the long list of occupations classified into appropriate occupational groups, each with its own scale of hourly and weekly rates. Time rates are normally based on a working week of 47 hours, while piece-work rates are fixed to yield to an ordinary adult worker not less than 20 per cent. above the basic hourly rate appropriate to the occupation. A guaranteed week gives operatives the right, subject to certain conditions, to payment for 34 hours at the agreed basic hourly rate. Provision is made for six days' holiday (normally August Bank Holiday week) with pay of 2 per cent. of the previous year's earnings, and for payment at fixed rates for four statutory Bank Holidays and the Saturday prior to the annual holiday.



# The Reform of Taxation

[CONTRIBUTED THROUGH THE INCORPORATED ACCOUNTANTS' RESEARCH COMMITTEE]

*As explained in a Professional Note on page 331, this memorandum is not published as a statement of definite conclusions but as a basis for discussion. Readers' comments will be welcomed.*

1. It is generally agreed that improvements in the taxation system in force in the United Kingdom to-day are urgently necessary, especially since tax at a high rate will certainly continue during the foreseeable future. This Memorandum has, therefore, been prepared, following discussions between economists and accountants, with a view to inviting comments from members of the accountancy profession on ways in which taxation should be reformed.

## Defects of the Present System

2. No one who has had some experience of the present system of national and local taxation will have any difficulty in drawing up a formidable list of imperfections in principles and machinery. It should be appreciated that many of these defects appear or are aggravated mainly because taxation is very high, and that their aggregate effect would be mitigated simply by a reduction in the average level of tax. Accepting the fact that, despite possible alleviation, tax as a whole will remain high for a considerable time, it is useless to search for systems which will be comfortable, popular, and completely painless. The most that can be done is to ameliorate the system generally and to mitigate or remove some of the defects.

The main defects appear to be as follows:

(i) The tax system diminishes the incentive to incur effort in all strata of taxpayers, especially among the smaller types of businesses and the wage-earners. The large "institutional" business is probably less affected by this particular consideration, since there the individual is not faced with a direct choice between leisure and income. But risk-taking and adventure by the individual is at a discount both because a fluctuating income pays more tax than a constant income of the same mean value and because high peaks of income, which are an essential part of the risk-taking process, are flattened. The wage-earner faces a choice between leisure and income in regard to overtime, and in industries where voluntary absenteeism can be practised. The pronounced marginal rates of tax under P.A.Y.E. accentuate this elasticity of demand for income in terms of effort.

(ii) Tax at present rates very probably diminishes the incentive to save. Savings would be stimulated with a fall in the rate of interest after tax if a sufficient number of people wished to maintain their income from investments, but experience so far goes to show that this factor is relatively unimportant. When the rate of interest is low and the rate of tax high, it seems hopeless to attempt the struggle.

(iii) With very high tax rates, inflationary effects are produced. Mr. Colin Clark has recently argued that this point is reached when 25 per cent. of the national income is absorbed in central and local taxation. Tax comes to be treated by the business man not as an allocation out of profit, but as a cost: price quotations move upwards accordingly. There is evidence that this approach has become widespread wherever the preventive effect of price control is absent.

(iv) Capital formation takes its most speedy and economic form through the re-investment of net taxed

industrial profits. High taxation reduces the incentive of this method. When labour and materials are freer from controls this defect will grow. The alternative of the capital market is more wasteful, and, in any event, that market is not now free.

(v) The search for capital appreciation is artificially stimulated; investors increasingly want, not taxable income, but tax-free capital gains.

(vi) Local rates are out of relationship both to capacity to pay and to service received.

(vii) There is an unfair incidence of tax, e.g.:

(a) Relief for earned income is totally inadequate.  
(b) Assessable profits are not equated to commercial profits. In particular, while the taxation system ignores, for purposes of wear and tear allowances, the difference between original and replacement costs of companies' assets, industry cannot. Moreover, industry under the present system must provide out of profits, not only the excess cost, but also tax thereon.

(c) Partners and sole traders suffer from differential taxation in comparison with limited companies, owing to their being liable for sur-tax which the limited company partly escapes.

(d) Non-publication of extra-statutory concessions penalises some taxpayers.

(viii) Legislation, practice, administration, and calculation are unduly complex.

(ix) There is a lack of flexibility; changes of P.A.Y.E. or purchase tax, for example, cannot be made without long delay and inconvenience.

## Remedies

3. It is proposed to consider remedies under three heads:

(i) Modifications which have been widely discussed and have already secured considerable support.

(ii) Reforms which require further investigation in detail, but whose merits appear substantial.

(iii) Changes of principle that offer possibilities, but on which more fundamental work needs to be done.

### Modifications which are widely approved

4. (i) Any further reductions of tax that are possible should be concentrated on direct taxation, beginning with the wage-earners; earned income relief over the whole field; and profits tax.

(ii) Tax law should be codified and simplified along the lines recommended by the Committee on Tax Codification, 1936, and there should be no further legislation "by reference."

(iii) The Income Tax Act, 1945, should be extended so as to ensure that assessable profits approach more closely to commercial profits (and to real profits in the economic sense), in particular, as regards the depreciation of commercial buildings and the allowance of policy reserves for stock or for the replacement of plant at enhanced prices.

(iv) The practice of publishing memoranda on extra-statutory concessions and on administrative practice should be extended.

### Reforms requiring further investigations

5. (i) Suggestions have frequently been made that undistributed profits should be taxed at a lower rate than distributed profits, i.e., that retained profits should be allowed some rebate off the standard rate of tax. It is perhaps appropriate to point out in relation to this

proposal that in our taxation system, income tax and sur-tax are two parts of one tax. In other words, we have a progressive income tax, with effective rates in relation to each pound of income, ranging from a fraction of a penny to a figure closely approaching 100 per cent. The standard rate of tax is, therefore, only one particular point in this range of effective rates. Theoretically it is difficult to justify the choice of that standard rate for application to undistributed profits, unless it can be asserted that the standard rate happens to be in each and every year, and whatever the standard rate may be, the effective mid-point or average effective rate of tax which would have been borne by all recipients of distributed profits had each of them in respect of his particular share of these undistributed profits been taxed at that new effective rate to which his income, including his share of the undistributed profits, would have been liable.

Even in that event, it still would not have been necessarily right, advisable, or desirable, economically, that the standard rate should be applied to these retained profits.

The essence of any case for a lower rate must be found in the incentive it offers to increased capital formation, the rate of which in past years has probably, from a national point of view, been inadequate. The Colwyn Committee on National Debt and Taxation pointed out many years ago that savings made by corporate enterprise in the form of undistributed profits and turned into capital investments were both economic and timely, viz.:

"In the case of a progressive business the flow of capital is just in the place where it is required; it is at the growing-point of industry, enabling new needs and opportunities to be met without delay as and when they arise." (Para. 400.)

On these grounds there is something to be said for encouraging them by a low rate of tax.

This subject was fully considered by the Colwyn Committee (Paras. 1016-1020), and their final decision was that they could not recommend the adoption of proposals for relief in respect of sums put to reserve out of profit by companies.

On the other hand, it has been surmised that such a rebate might stimulate the retention of profits at the cost of dividends to the equity shareholder in such a manner as would in the long run have an adverse effect upon enterprise. It may also be argued that there is no good ground for subsidising this particular form of savings, or, in other words, that the services rendered to the national interest by the equity shareholder are not such as to entitle him to a favour of this kind.

Since it is this encouragement of enterprise that is the main *desideratum*, it seems preferable that special allowances should be given for re-invested profits, as under the Income Tax Act, 1945, provided more generous and wider allowances are given.

(ii) Full consideration should also be given to the proposal that all income tax should be collected at the full standard rate (which would be revised downwards so as to bring in the same total revenue), allowances being no longer set off in arriving at the tax liability. Instead, the allowances would be given in the form of vouchers which could be encashed at post offices and banks, or deposited with the employer, who would add their value to the weekly pay-roll and obtain reimbursement from the Government. (The allowances would best be integrated with a comprehensive social security scheme and would possibly be at revised rates accordingly.)

This system would aid administration very considerably, both in the Inland Revenue and in the em-

ployers' offices. So far as wage-earners are concerned, P.A.Y.E. would become a simple matter of a uniform fractional deduction from every item of earnings. The marginal disincentive, which is P.A.Y.E.'s largest economic disadvantage, would disappear. Under this proposal sur-tax, still graduated, would begin at a lower level than at present. The choice would have to be made between deducting it at the source, thereby perpetuating the administrative disadvantages of P.A.Y.E. over a part, but a much reduced part, of the field, or reverting to annual or bi-annual collection, thus introducing a degree of uncertainty in collection and greater possibility of evasion. (See 6 (i) below.)

(iii) A reform which might be expected to encourage enterprise would be the introduction of a special earned income relief on sur-tax (as this tax is at present). The hardships of taxation on middle-class incomes would also be appreciably reduced if deductions were allowed for medical and hospital expenses and possibly for school fees, though the case for this relief is weakened by the new health and education proposals, and the danger of converting a tax on income into a tax on specific expenditure.

(iv) There seems to be a strong case, especially following the recent increases in Estate Duty proposed in the Finance (No. 2) Bill, 1946, for imposing and grading estate duty at least partly by reference to the amounts receivable by the individual beneficiaries. Why should the sole child of a person with an estate of £20,000 receive a greater benefit after deduction of duty than the five children of a person with an estate of £100,000?

#### Changes requiring fundamental research work

(6) (i) The suggested universal payment of income tax at standard rate with graduated sur-tax.

(ii) The possibility of a tax based on capital.

(iii) The introduction of a local income tax.

(iv) The effects of a higher proportion of "indirect" taxes.

(v) Whether the basis of assessment should be changed to the current year for all schedules.

(vi) The cumulative effects of all forms of taxation, including customs and import duties, purchase tax, estate duty, motor taxation and stamp duties.

## P.A.Y.E. Administration

The new single table system, to which reference was made in our last issue, is to be applied to pay-as-you-earn income tax deductions from the beginning of the fiscal year 1947-8. Weekly or monthly deductions will be arrived at in two stages, by ascertaining first the "free pay" appropriate to each employee, and second, where the earnings exceed the "free pay," the tax appropriate to the excess. While in other respects the single table involves some additional work for employers, there will be a saving of work in respect of employees not liable to tax. The adoption of the single table system is cited by the Board of Inland Revenue in its reply to criticisms made by the Select Committee on Estimates, as a recent example of improvement resulting from the constant review of the machinery of P.A.Y.E. since its inception. If the principle of collecting the tax concurrently with the earnings and in due proportion to their amount is to be accepted as the governing principle, then the P.A.Y.E. system has, in the Board's view, justified itself as structurally sound.



**TAXATION****Gifts Inter Vivos**

While estates not exceeding £2,000 in value are now not liable to estate duty, the rates on estates above that figure quickly reach heights that will effectively prevent the retention of large fortunes. For example, the rates at representative stages are:

£20,000...	...	10 per cent.
45,000...	...	20 "
100,000...	...	30 "
200,000...	...	40 "
300,000...	...	50 "
750,000...	...	60 "
1,000,000...	...	65 "
2,000,000...	...	70 "
Over 2,000,000	...	75 "

The result will be to eliminate the largest estates in a few generations, e.g. if there is an estate of £2,000,000 passing from father to son over four generations, the figures work out broadly thus:

	Estate	Estate Duty Rate %	Estate Duty Amount	Legacy and Succession Duty	Net
1st death	£2,000,000	70	£1,400,000	6,000	594,000
2nd "	594,000	60	356,400	2,376	235,224
3rd "	235,224	45	105,851	1,294	128,079
4th "	128,079	35	44,828	833	82,418

It may be objected that the estates would not necessarily diminish so rapidly, as each owner might add to the property. This can be of little practical effect, however. If the new owner in each case had already other property, the result would be a higher rate of duty; if he had not, he could save little out of income, e.g., at to-day's rates, income tax and sur-tax takes £93,962 out of an income of £100,000, except for the comparatively little amount of income tax on allowances.

The incentive to persons of property to avoid estate duty is therefore enormous. Most loopholes, however, have been stopped. There remains only one certain way, and that is *bona fide* to give away the property absolutely and without reservation while alive and take the chance of the donee dying first.

A gift for charitable or public purposes will escape estate duty provided it is made more than one year before death. One to any other person or purpose, however, must now be made more than five years before death (Section 47 and Eleventh Schedule, Finance Act, 1946). The increase from three to five years is effective for all deaths on or after April 10, 1946, with a transitional provision that no gift made before April 10, 1943, is to be liable. Any estate duty payable on a gift *inter vivos* falls on the donee.

A gift made within the statutory period, though liable to estate duty, escapes legacy or succession duty.

**Consideration**

If the gift was made before the statutory period, it escapes estate duty, provided always that there were no reservations persisting in the statutory period. Even if there was some consideration for the transfer of property, any element of bounty in the gift will remain potentially taxable for the statutory period. Gifts in consideration of past services are not for consideration, and if made in the statutory period are liable.

Moreover, if the consideration for the transfer of the property is an annuity by a relative to the deceased, estate duty will become payable under the 1940 Act.

Gifts which are effected by the granting of an obligation or creation of a charge on the donor's estate do not count, as they are not created for full consideration in money or money's worth.

An absolute gift is therefore essential, and the donee must have assumed *bona fide* possession and enjoyment of the subject matter to the entire exclusion of the deceased, or of any benefit to him by contract or otherwise. If a reserved benefit has been surrendered before the statutory period, however, it will be effective.

Although a gift within the statutory period is liable to duty, any income derived from it is not regarded as a dutiable gift.

A revocable gift is caught in the net.

**Valuation**

In the case of a liable gift, it is the subject matter of the gift that is deemed to pass on the death, and must be valued. If the subject matter has ceased to exist (e.g. a gift of a racehorse which predeceases the donor), no duty arises. Otherwise, the property given must be valued on the death of the donor, whether still in the hands of the donee or not. If a settlement was made by the deceased as the gift, it is the investments representing the capital of the settled fund at the date of death that are valued, the settled fund being regarded as the unit.

Cases have arisen where the gift has been of shares, on which the donee has subsequently received bonus shares; the bonus shares were not given by the donor and are ignored.

In all cases, any capital improvements by the donee, or by those taking through or from him, are not included in the valuation. A gift of cash, of course, will be of the same value at the death of the donor as at the date of the gift.

Occasionally, a donor has given away so much that what he has left is insufficient to meet his debts. In that case, the excess cannot be deducted from the gifts *inter vivos*.

**Exemptions**

The following gifts made within the statutory period are exempted from estate duty:

- (1) Gifts in consideration of marriage. These cover gifts made in contemplation of marriage not only of the donor but of other persons.
- (2) Gifts that are normal (i.e. typical or habitual) and reasonable, having regard to the donor's income or circumstances. It should be noted that a gift of capital cannot come under this heading.
- (3) Gifts to any donee not exceeding £100 in value or amount. The gift is valued at the date it is given, not at the donor's death. Each donee is treated separately, and all gifts to him in the statutory period aggregated.
- (4) Gifts to the National Debt Commissioners for reduction of the National Debt.
- (5) Gifts to the National Trust, etc.

**Donationes Mortis Causa**

If the gift is made on the donor's death-bed or when he is in imminent expectation of death, and conditional on his death, it becomes a *donatio mortis causa*. It is liable to legacy duty as well as estate duty. There is no exemption limit.

## Excess Profits Tax Refunds Advisory Panel

The following is the full text of the statement on the treatment of E.P.T. refunds, which is the subject of an article on page 335.

1. The Excess Profits Tax Refunds Advisory Panel appointed by the Treasury under Section 42 of the Finance (No. 2) Act, 1945, makes the following announcement as to the principles to which it will work in carrying out the duties laid upon it by the Act.

### Terms of Making Over

2. Where the refund is to be made over to a person or company other than the person or company to whom a refund is due, the Panel is called upon to approve the terms under which it is made over before payment can be made. (The undertakings, etc., do not, however, require the approval of the Panel where the refund is made over by the principal company of a group to an Excess Profits Tax Subsidiary—see Sixth Schedule, Part II, paragraph 4, of the Act.)

3. The Panel will approve cases in which the refund is made over unconditionally or as a loan for use in the original trade or business or for use in a trade or business carried on or to be carried on by a relative of the taxpayer (relative being defined as in the last paragraph of Section 39 (2) of the Act) provided that in the loan cases the loan is fixed for a period of at least five years and the interest, if any is charged, is reasonable.

4. Where the refund is made over for use in a trade or business in which the taxpayer or a relative of his has or is to have a substantial interest, the Panel will approve cases where it is made over unconditionally or subject to the conditions mentioned in the previous paragraph as a loan and where the interest in the business is 20 per cent. apart from "any interest acquired by or for him in consideration of the making over." In other words, the Panel will regard the expression "substantial" in Section 39 (2) (c) of the Act as satisfied by a 20 per cent. interest.

5. The Panel will not approve cases in which the refund is made over for a cash or equivalent consideration.

### Use of Refunds—Development and Re-equipment

6. The fundamental principle behind the payment of refunds is that they shall be used to develop or re-equip a specified trade or business.

7. The receipt of a refund will normally give rise to an increase in the net worth of the business concerned, that is the capital and reserves of the business as represented by the excess of the assets of the business over its liabilities. The Panel will expect this increase in net worth to be shown and maintained separately on the balance sheet of the business as a capital reserve. Where a refund is received as a loan, there will be no such increase in net worth, but the Panel will expect the loan to be maintained and shown separately on the balance sheet.

#### DEVELOPMENT

8. In general, "development" will be clearly identifiable where the refund has been used to expand the capital employed in the business as represented by the fixed assets and working capital of the business. The reduction of a bank overdraft or the discharge of other liabilities will be regarded as such an expansion of capital.

9. The Panel will be prepared to regard as development, expenditure out of the refund on special advertising, research and other similar expenditure aimed at

improving the business provided that it is capitalised and treated as a capital asset against reserves. Expenditure of this nature charged to profit and loss will not be regarded by the Panel as development.

#### RE-EQUIPMENT

10. The Panel will regard as re-equipment of a trade or business any expenditure on assets where the effect is to obtain more for less efficient buildings, plant, machinery, equipment, etc.

11. To the extent that relief from taxation falls short of the expenditure, rehabilitation expenses as defined by the Finance Act, 1946 (broadly speaking, expenditure on the removal of A.R.P. installations, the return of evacuated businesses and the re-adaptation of buildings, plant, machinery, etc., for peace-time production) may be charged against the refund. The Panel will not, however, regard as so chargeable expenditure on deferred repairs.

### Improper Use of Refunds

12. Section 40 (1) (b) of the Finance (No. 2) Act, 1945, lays it down that any part of the net refund which is not used for development or re-equipment of a business "shall not be directly or indirectly distributed by way of dividend or cash bonus or capitalised for the purpose of issuing bonus shares or debentures or releasing any liability for uncalled share capital or applied, whether by way of remuneration, drawings, loans or otherwise, for the benefit of partners, shareholders, or proprietors." As has already been stated, the receipt of a refund will normally give rise to an increase in the net worth of the business concerned. The normal test to be applied by the Panel in determining whether or not any part of a refund has been directly or indirectly distributed for the benefit of the partners, shareholders or proprietors will be the movement of the net worth of the business, due regard being paid to the normal level of the provision for depreciation and to the course of profits and their disposal.

13. Any distribution of free or capital reserve will in the view of the Panel constitute a *prima facie* case for enquiry in order that the Panel may satisfy itself that the refund is not being indirectly applied in a manner contrary to the undertakings given under the Act. In any case in which the distribution of profits in respect of the year or period concerned for the benefit of partners, shareholders or proprietors exceeds the amount of the profits for that year or period, the Advisory Panel would feel obliged to satisfy itself that the undertakings given in respect of the refund were not being infringed.

14. It will also be clear that the question of the distribution of existing reserves is linked with the disposal of the current earnings of any business which has received a refund. The Chancellor of the Exchequer has already made it clear that any increase in current earnings which results from the benefits conferred by the use of a refund may be freely dealt with in the same way as earnings generally (*Hansard*, July 22, 1946, Columns 294-295).

#### Miscellaneous

15. Section 40 of the Act requires that, until the refund has been used for developing or re-equipping a business, it is to be "so dealt with as to remain available for use, when required, in developing or re-equipping the trade or business." As long as any part of a refund



remains unused, the Panel will be assisted in carrying out its duties if any such unused part is separately distinguished among the assets of the business. The Panel will regard investment in Government or other marketable securities as complying with the requirement that a refund should remain available for use.

16. The work of the Panel will be facilitated if reports of directors to their shareholders or the accounts indicate how a refund has been used.

17. The Panel calls attention to the provisions of Section 47 of the Finance (No. 2) Act, 1945, which provides that, subject to specified conditions, the Commissioners of Inland Revenue may give credit for the net amount of any Excess Profits Tax refund (after deduction of Income Tax at the standard rate for the year 1946-47) against Excess Profits Tax liabilities. Any such credits are to be deemed to have been paid to the Commissioners and repaid by them and the undertakings and authorities in respect of the refund

are, with the necessary modifications, to have effect accordingly.

18. Finally, the Advisory Panel draws attention to the provision of Section 50 (4) of the Act, under which any part of the refund used in or towards the recoupment of expenditure in developing or re-equipping a business which has been incurred on or after the first day of April, 1945, is to be regarded as expenditure on development or re-equipment for the purpose of satisfying the undertakings given in respect of the refund.

P. L. SMITH,  
(Secretary).

Treasury Chambers,  
Great George Street, S.W.1.  
November 8, 1946.

Copies of this announcement can be obtained free of charge from the Secretary, Excess Profits Tax Refunds Advisory Panel, Treasury Chambers, Great George Street, London, S.W.1.

## Taxation Notes

### Housekeeper Allowance

The collection of the scattered provisions for the housekeeper allowance is confusing to the newcomer to taxation, and the following summary will be useful. The allowance is available to—

- A widower or widow who has resident with him or her a female relative as housekeeper or to look after children for whom the claimant obtains child allowance. If no relative is available, another female person may be employed for the purpose; here there must be evidence of employment, and the housekeeper must reside with the claimant. (The term "relative" includes a person who was an adopted child when under the age of 16.)
- An unmarried person who has resident with him or her, his or her mother or other female relative maintained to look after a brother or sister for whom the claimant gets the child allowance. If the housekeeper is the mother of the claimant, she must be a widow or separated from her husband.
- A married man whose wife is, throughout the year of assessment, totally incapacitated by physical or mental infirmity, and who maintains or employs a female person resident with the claimant to look after a child for whom he gets the child allowance.
- An unmarried, divorced or separated person not entitled to the "married" personal allowance, who maintains or employs a female person resident with the claimant, to look after a child for whom the claimant gets the child allowance. A female claimant, however, can only get the housekeeper allowance under this heading if she is, throughout the year of assessment, totally incapacitated by physical or mental infirmity or is in full-time employment or business.

In all cases, it is a condition of the allowance that no other taxpayer is entitled to allowance for the female person as a housekeeper, child or dependent relative, or that any person so entitled has given up the claim. The housekeeper allowance is £50.

### Age Allowance

The point at which marginal relief ceases to operate for the age allowance for 1946-47 is, where the income is wholly unearned, £593 15s., as is shown by the following computations:

	Without age relief	With age relief (marginal)
Total income ...	£593 15 0	£593 15 0
Margin ...		93 15 0
		500 0 0
Age allowance ...		£62 10 0
Personal (married) 180 0 0	180 0 0	242 10 0
	413 15 0	257 10 0
£50 at 3s. ...	£7 10 0	£7 10 0
75 at 6s. ...	22 10 0	22 10 0
288 15s. at 9s. ...	129 18 9	59 12 6
		£159 18 9
		£159 18 9

### E.P.T. Terminal Adjustments

It cannot be too often emphasised that the attention of clients must be drawn to the terminal claims provided by the Finance Act, 1946. Particularly must they be impressed with the necessity of taking stock on December 31, 1946, if there is a possibility that the stock then held will be sold at a loss.

The stock for this purpose must be valued in two columns, one at cost, the other at its selling value. There is no question of valuing each item at the lower of cost or selling price. This is probably the first step towards the Revenue insisting on what they term the "global" valuation of stock. Unless taxpayers will unite to fight this method, it will gradually be insisted upon for all purposes.

### Sur-Tax—Control of Company

The *Bibby* case (1945, 1 All E.R. 667) has received deserved comment in its application to E.P.T., which it concerns. It may not be inappropriate, however, to examine it from the viewpoint of sur-tax on controlled companies (Section 21, Finance Act, 1922, as amended), and of the valuation of shares of controlled companies (Section 55, Finance Act, 1940).

In the sur-tax cases, the requirement is that the company is "under the control of not more than five persons," and by Section 19 (2), Finance Act, 1936, *inter alia* nominees and persons interested in any shares or obligations of the company which are subject to any trust

are respectively to be deemed to be treated as one person. It appears therefore that the *cestui que trust* and the registered holder are one for this purpose, so the *Bibby* case is irrelevant. Control is looked at from the viewpoint of the members, not, as in the *Bibby* case, of the company.

In the case of Section 55 of the 1940 Act, it appears that in the absence of any contrary agreement or of express provisions in the Articles of Association, it is again necessary to look at the question, not from the company's viewpoint, but from that of the members. It seems therefore, that a bare trustee can be disregarded; the *cestui que trust* controls him and therefore the shares. A person acting in a fiduciary capacity only

does not exercise control (Section 55 (6)). A beneficial joint owner can always have his holding split, and should not, it is thought, be regarded as holding in a fiduciary capacity.

It appears that a distinction should be drawn between the E.P.T. case of directors having a controlling interest in the company, i.e. controlling voting power, and those now under discussion where "control" by persons is under consideration. An interesting though perhaps inconclusive thought.

#### Double-Taxation Relief

Agreements have now been signed with South Africa, relating to trading profits and estate duty.

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

*Schedule E—Insurance broker with personal connection employed by insurance company—Paid by salary and commission—Appointment as managing director of the company, involving transfer to company of connection—Lump sum paid as compensation—Whether capital receipt or assessable to income tax.*

*Hose v. Warwick* (K.B.D., May 27, 1946, T.R. 227), was one of the many cases where a lump sum had been paid in connection with the termination of a service agreement, and the question was whether it was a capital receipt or a payment for or in respect of services. H. was an insurance broker with a city firm up to the end of 1919, and had worked up a considerable personal connection. He was then induced to enter the service of an insurance company, the subsidiary of a large undertaking. He was to receive a salary of £750 plus 50 per cent. of the commissions arising from the connection he brought with him. By 1937, this share of commissions amounted to about £10,000 per annum from those who were and remained his personal clients. In this year, the managing director of the company retired, and H. was invited to take the post. Protracted negotiations ensued. Although it was intended that he should be better off eventually under the new agreement, his salary was to be £2,900 a year, 5 per cent. on the net profits up to £25,000; 10 per cent. on the net profits up to £35,000; 20 per cent. on the net profits over £35,000; and a sum equal to the gross dividends on 1,000 ordinary shares. It was an agreement for full-time service with stringent restrictive covenants; and under it he gave up his personal connection, which passed to the company. The agreed compensation, £30,000, was payable once and for all, and there was no suggestion that it was repayable in whole or part in any circumstances.

The Special Commissioners had held that the payment was assessable; but Atkinson, J., reversed their decision. After reviewing the facts, briefly summarised above, he declared it to be plain that the £30,000 was in no sense remuneration for services to be rendered, but was a sum paid to H. by the company for abandoning his personal connection, and securing their hold on it by the restrictive covenants. The Commissioners, he said, had for some reason or other construed the agreement in a sense contrary to its plain language, only justifiable if the agreement did not truly state its real nature.

There would seem to be very little law in any of these compensation cases, the determinant question being whether the amount represents consideration in respect of the surrender or sacrifice of existing rights, and is not the capitalisation of remuneration for services to be rendered in the future.

*Excess Profits Tax—Whisky transactions—Sale of stock at under value—Sale of shares by original shareholder—Whether difference between the fair market value of the shares and the price obtained taxable—Finance Act, 1943, Section 24.*

*W. H. Holt and Sons (Chorlton-cum-Hardy), Ltd., v. C.I.R.* (K.B.D., May 29, 1946, T.R. 235) was a "whisky case" which enabled an English Judge to comment upon the decision of the Court of Session as to the effect of Section 24 of F.A., 1943, so far as "original shareholders" are concerned. (The Court of Session's decisions on the Scottish "whisky cases" were dealt with in a Professional Note on page 243 of ACCOUNTANCY for August, 1946.) The facts of the case were sufficiently remarkable. H. and his wife held all the issued shares in the appellant company, viz., £36,500, the business of the company being that of a merchant and distiller of whisky. H. was also shareholder in a second company which had a stock of over 60,000 gallons. The stock of the appellant company was 560,000 gallons, and it stood in the books at 3s. a gallon, whilst the market price was about £4 a gallon. The standard profit of the appellant company was £5,600, and if the whisky had been sold, all the money save a small fraction would have gone in E.P.T. In December, 1941, H. had sold his shares in the second company at a price distinctly above the market value to what may be termed "an operating group." At the beginning of 1942, H. was asked whether he would sell his shares in the appellant company and his response was, to quote the judgment, to make "the very modest demand for £1,400,000 for his shares." He got his price, the agreement being completed upon March 5, 1942.

The Crown had taken the view, "unfortunately"—a term which Atkinson, J., said he used advisedly—that the transferor of shares was liable under the Section without more ado, and that it was unnecessary to prove that he knew what was intended. The Special Commissioners, as in the Scottish cases, had decided in favour of the Crown, with the results that H.'s profit of well over £1,000,000 was taxable. Atkinson, J., referring to the decision of the Court of Session, declared, "Humbly, I take the same view; but, whether I did or whether I did not, I should follow that decision... the appeal must succeed."

For the Crown it was urged that complicity was so plain upon the facts of the case that under Section 149 (2) (a) of the Income Tax Act, 1918, the Judge should either dismiss the appeal, or send the case back to the Special Commissioners to determine the issue of complicity. The judge said it was not easy to avoid the conclusion as to complicity; but the Revenue before



the Special Commissioners did not allege H.'s complicity or even knowledge of what was going on. They were content to rely on their contention that these were immaterial. It would not be fair now to decide that question of fact, and, as for sending it back, he said that if he were a final Court of Appeal he would certainly do so. But the case on the main point, whether knowledge or complicity was material, was going to the Court of Appeal; and if the Crown succeeded, there would be no need to send it back. In any event, that Court would have the right to send it back. The most convenient course for everyone was simply to allow the appeal upon the question of law raised.

From the administrative point of view, the making of liability to depend upon benefit without any necessity of proving knowledge or intention is of very great importance. Nevertheless, as the Scottish Judges showed, the issues raised by such legislation may be even more important than the prevention of evasion.

*E.P.T.—Computation of profits—Wear and tear allowance—F. (No. 2) A., 1939, 7th Schedule, Part 1—F.A., 1941, Section 39 (2).*

*C.I.R. v. Great Wigston Gas Co. (C.A., July 25, 1946, T.R. 353)* was noted in our June, 1946, issue. In the Court of Appeal, the judgment of Macnaghten, J., in favour of the company was unanimously reversed. Somervell, L.J., gave the only judgment. Leave to appeal to the Lords was given.

The substance of the argument for the company was that, as regards the computation of profits for excess profits tax, the taxpayer had the choice. He could claim the wear and tear allowance under Rule 6, or the renewals allowance under Rule 3 (d) (Rules to Cases I and II of Schedule D), or, apparently, although not stated, could claim neither. Further, he could make a separate choice for each accounting period, standard or chargeable, according to how it suited him. This involved an argument that the deductions in question could only be made if the taxpayer chose to claim them and made out his claim. For the Crown it was argued that the words "there may be deducted" in para. (2) of the 7th Schedule to the 1939 Act were addressed to the C.I.R., and not to the taxpayer; and, inasmuch as this view was approved by the Court, in the writer's opinion, this in itself settled the issue. It was also held that, whilst the taxpayer had no such right of election as that claimed, even if he had, the adoption of the renewals principle for the chargeable accounting periods would have, by virtue of Section 39 (2) of F.A., 1941, made that principle applicable to the standard period.

The decision, which, in the words of the judgment, "enables the Commissioners to treat the two periods on the same basis, and so carry out the general principle of comparing like with like," is of very considerable importance, and will affect many cases. It had long been recognised that the clear provisions of Part 2 of the 7th Schedule relating to the computation of capital were hard to reconcile with the taxpayer's contentions in regard to the computation of profits for E.P.T., and this fact was held to have "some bearing on the construction of Part I," despite the difference of wording. There is no doubt that the decision is in accordance with the intention of the legislature.

*Income Tax—"Profits from dealings in life insurance policies"—Purchase of policies on lives of other people—Intention to hold to maturity—Whether an adventure or concern in the nature of trade.*

*Smith Barry v. Cordy (C.A., July 25, 1946, T.R. 359)* was noted in our issue of October, 1945. The case was one which attracted considerable public interest because

of the novelty of the scheme. Putting the matter in a nutshell, appellant had acquired 64 policies on other people's lives, 63 of them being endowment policies. The choice of policies was determined by maturity dates and appellant, a trained mathematician, had calculated on a clear income of £7,000 per annum until he was 74 from £100,000 invested. His original intention was, however, not fully carried out in consequence of ill-health. The Revenue claimed that the differences between what he had paid for the respective policies and what he received for them were profits from "an adventure or concern in the nature of trade." The Special Commissioners had found in favour of the Revenue, but the finding had been reversed by Macnaghten, J., who said that no case had been cited to him in which a person was held assessable where he had bought something with the intention of keeping it, and that it would be an unwarrantable extension of the word "trade" so to hold. Nevertheless, the Court of Appeal unanimously reversed this decision and restored that of the Special Commissioners as a finding of fact for which there was evidence. Leave was given to appeal to the Lords.

Scott L.J., giving the judgment of the Court, found by reference to authorities that the word "trade" was wide enough to include the scheme. The reasoning is, to the present writer, unconvincing. He also finds it difficult to distinguish in principle between what the appellant did and what is done, every day, by many persons. The taking out of a series of endowment policies upon one's own life, maturing at different dates, would seem to be much the same thing as the acquiring of similar existing policies upon the lives of others, although, in the case of premature death, the benefits upon immature endowment policies would, in the former case, arise to the insured's executors, and not to the insured himself. A further point is that the accretions to endowment policies are, as a matter of fact, built up almost entirely from the taxed investment income of the various life funds of the assurance companies; and the latter are taxed not under Case I upon net profits, but by virtue of "the Revenue Option," either by deduction or under Cases III, IV, and V.

*Income-tax—Foreign possessions of married woman—Husband abroad upon Army service—Whether wife assessable—General Rule 16.*

In *Jacobs v. Nugent-Head (C.A., July 25, 1946, T.R. 347)*, a unanimous Court of Appeal reversed the decision of Macnaghten, J., noted in our issue of March, 1946, and restored that of the Special Commissioners. Leave was given to appeal to the Lords.

The main argument for the taxpayer was that the words "living in the United Kingdom separate from her husband" in the second proviso of the Rule meant "legally separated." This construction rendered nugatory the words immediately following, "whether the husband be temporarily absent from her or from the United Kingdom or otherwise." The decision of the Court may be summed up in the words of Bucknill, L.J., that married women are assessable by virtue of proviso (2) where "husbands and wives are living apart not because they wish to do so, but by reason of the force of circumstances." The judgments, however, are interesting analyses of the Rule, and deserve careful study.

*Sur-tax—Investment company—Controlling director sole voting shareholder—Trusts for benefit of children—Payments by trustees to controlling director for maintenance and education of children—Ability to secure application of*

*company's income—Estate income—F.A., 1939, Sections 14 and 15.*

*Hulme Estate Company, Ltd. v. C.I.R. (C.A., July 25, 1946, T.R. 365)* was noted in our issue of September last. The Court of Appeal has unanimously affirmed the judgment of Wrottesley, J. The case is too technical in its arguments and too specialised in its interest to warrant a full note; but one *dictum* of the only judgment is worth mentioning:

"We think it impossible to lay down as a rule of law that moneys paid to a father under a trust for maintenance must, for income-tax purposes, be always treated as money paid for the father's benefit."

*E.P.T.—Optician, qualified, examining eyesight, prescribing, and selling spectacles—Whether carrying on a profession—General Commissioners' decision that part of profits was from a profession—Subsequent decision that business mainly non-professional—Whether E.P.T. assessment should be upon total profit or only on latter—Whether standard profit reducible—Finance (No. 2) Act, 1939, Section 12 (2) (3).*

In *Neild v. C.I.R. (K.B.D., July 26, 1946, T.R. 371)*, the facts and issues were as set out in the heading. The General Commissioners at the second hearing dismissed the appeal upon the ground that the business was mainly commercial. Macnaghten, J., following the old E.P.D. case of *C.I.R. v. Maxe* (1919, 1 K.B. 647, 12 T.C. 41), held that the professional part of the profits fell to be excluded; and, after argument, the question of whether appellant was entitled to the full standard of £1,500 or only part was remitted to the Commissioners.

*Excess Profits Tax—Investment income—Lease of business premises—Owing to diminution of business whole of leased premises no longer required—Sub-lease of part to another company—Whether sub-lease rent income from an investment—Finance (No. 2) Act, 1939, Section 14 (1); Schedule VII, Part I, paragraph 6 (7).*

*C.I.R. v. Broadway Car Company (Wimbledon), Ltd. (K.B.D., July 24, 1946, T.R. 345)*, was a case where part of leased premises was no longer required by the lessee owing to diminution of business. The rent under its lease was £750 per annum, but it obtained £1,150 per annum from the part sub-let and it was claimed that this was income from an investment, and so to be excluded for E.P.T. Macnaghten, J., reversing the decision of the

General Commissioners, held that the *Desoutter* decision negated this contention. It is to be noted that the facts of this case were different from those where at the time of an original lease of business premises, the latter are in excess of requirements and the intention is only to occupy part for the business, the remainder to be sub-let. In the writer's opinion, cases of the latter type would not be covered by the decision.

*Stamp Duties—Electrical supply—Consumer paying by insertion of shillings in meter—Collection of money by collector—Entries by him of amounts collected on electricity prepayment meter card—Card the property of supply company—Whether card entries the giving of receipts within Stamp Act, 1891, Sections 101, 103.*

In *Attorney-General v. Northwood Electric Light and Power Company, Ltd. (K.B.D., July 22, 1946, T.R. 341)*, the Revenue sought to recover a penalty of £10 in the circumstances set out in the heading. Macnaghten, J., however, held that the word "gives" in Section 103 meant what it said and meant "gives so that he can keep as his own." He held that the company did not give a receipt liable to duty and not duly stamped, and the penalty was, therefore, not incurred.

*E.P.T.—Avoidance or reduction of liability—Companies becoming principal and subsidiary—Object to obtain a profitable investment—Acquiring company large E.P.T. deficiency—Second company small standard but large stock of wines and spirits—F.A., 1941, Section 35; F.A., 1944, Section 33.*

*British Pacific Trust, Ltd., and B. M. and J. Strauss, Ltd. v. C.I.R. (K.B.D., July 24, 1946, T.R. 377)*, had similarity to the Scotch whisky cases in so far as the main facts were concerned; but there was no elaborate scheme and there was no need for the Revenue to invoke Section 24 of F.A., 1943. The second company had a large stock of wines and spirits which it was holding off the market because, with a standard of only £6,000, to do otherwise would have meant that the large profits to be obtained by realisation would have gone to the Revenue. The first company, having a large E.P.T. deficiency, would have made "a profitable investment" by purchasing all the shares in the second company for £168,000, but for the fact that the Revenue made a direction that the latter company's E.P.T. was to be computed as if it were an independent company. The Special Commissioners confirmed the direction and Macnaghten, J., affirming, declared it to be a plain case. The report does not say how far the stock of wines and spirits had been realised before the Revenue took action.

*Income-tax—Bequests by a testator of annuities to be payable "without deduction of income-tax up to a maximum of 5s. in the £"—Whether annuitant entitled to retain income-tax reliefs.*

In *In re Arno* (Ch. Div., June 6, 1946, T.R. 385) it was held by Roxburgh, J., that the amount of each such annuity should be ascertained by calculating the gross amount which after deduction of 5s. in the £ amounted to the net annuity bequeathed and then deducting from the said gross amount tax at the standard rate. He ruled that, on the wording of the will, for reasons set out by him, the rule in *In re Pettit* (1922, 2 Ch. 765) did not apply and the trustees were not concerned with the annuitants' income-tax liabilities. The substance of his judgment would seem to be that, here, the testator was limiting the burden upon his estate and not imposing a limit to the benefit conferred on the annuitant. The whole position regarding these "tax free" annuities is becoming more and more artificial and unsatisfactory.

## THE INDEX TO "ACCOUNTANCY"

This issue concludes Volume LVII of ACCOUNTANCY, which comprises fifteen issues, October, 1945, to December, 1946, inclusive. Future volumes will be on a calendar year basis, January to December.

The index to Volume LVII is in preparation. In view of the continued need for paper economy, it will again be sent to readers only on request.

As in previous years, binding cases in blue cloth with gilt lettering are being prepared by T. Whittingham & Co., Ltd., Pixmore Avenue, Letchworth, Herts., who will bind subscribers' copies sent to that address at a charge of 15s. 0d., or will supply a binding case at 5s. 0d., post free. For readers taking advantage of these arrangements, the title page and index will be included. Others should send requests for the title page and index to the Editor of ACCOUNTANCY at Incorporated Accountants' Hall, who will send them as soon as they are available.



**FINANCE****The Month in the City****Response to 2½ per cent. Irredeemable**

The rush for dated stocks which greeted Mr. Dalton's announcement of the new 2½ per cent. Treasury Stock, repayable in 1975 or after at the Treasury's option, has rather subsided during the past month. It seems probable that a good proportion of holders of Local Loans (which are to be repaid on January 5 next year) decided to sell and to re-invest in dated stocks, high-grade debentures and preference stocks. Subscriptions for the new "tap" loan amounted to £35,900,000 for the first week (when it is known that there was at least one very large single application) but declined to £23,150,000 in the second week. But in informed quarters there is no tendency to view these rather moderate figures with any concern. The very demand for dated stocks has provided the Exchequer with substantial funds; the departments have been freely absorbing Local Loans sold by private holders on the market; and a certain volume of conversions has been received and is expected from investors and trustees. In fact, the Chancellor's minimum requirement from the "tap" has been broadly estimated at £100 million, and he already had £81 million when these notes were written. A last minute rush of applications was expected when the Chancellor announced the impending close of the issue. But the anxiety of private investors and trustees to have nothing to do with the new issue if they could avoid it has been even more marked as a result of the transport compensation terms.

**Cheap Money v. '1921' Depression**

Ordinary shares made a further moderate recovery during the first part of the month, carrying the *Financial Times* ordinary share index from 125.4 on October 25 to 127.7 on November 16. The index had been higher—it touched 128.3 on November 3 (only a point below the year's "high")—but it became distinctly shaky after Mr. Marquand, Secretary for Overseas Trade, had referred in Parliament to the possibility of a trade recession on the 1921 pattern in the fairly near future. In the City it was felt that although Mr. Marquand's sense of timing was not perhaps impeccable—he spoke at the very moment when senior ministers were exhorting the unions to increase productivity—his general argument could not be totally dismissed. This fear is not for any failure on the demand side, for shortages of every kind illustrate the volume of unsatisfied demand at present. It is rather that the shortages are occurring at crucial points in the production process for consumer and capital goods and home and export production alike. They include coal (in which the September recovery is a very slight affair) steel, timber, electric power, and rail transport. This early improvement in equities, therefore, was in any case rather nervous and selective, and owed more to the effect of the cheaper money campaign upon the stable investment industrials than to any recovery among the more fluctuating stocks.

**Transport Compensation**

The dominant factor in the month's markets, however, has been the surprising decision of the Government to compensate the holders of railway, London Transport and canal stocks on the basis of the market value of their holdings on the first six Stock Exchange trading days of November, or at pre-election levels, if the latter

were higher. In the case of the Bank of England, existing stockholders were given an equivalent amount of 3 per cent. Government stock, and their income was accordingly guaranteed, at least up to 1966. For the nationalisation of the coal mines, existing proprietors are being bought out for a capital payment governed partly by the future net maintainable revenue of the industry. The same procedure has been adopted for Cable and Wireless. The different basis proposed by the Government in taking over the transport stocks must be examined from two opposing points of view—capital rights and income rights. On the first, the stockholders would have no complaint, assuming that certain conditions were valid. If market values of individual stocks represented a fair valuation of the whole of the undertakings, and if the compensation stock could be used (it will, of course, be freely negotiable) to buy other stocks giving a roughly equivalent income to that to which stockholders have been accustomed in the past, the method of compensation by capital value would be economically just, and would involve no undue element of hardship. The Government proposals, however, will have very different consequences. It is open to doubt whether the choice of market values at a given period does give a fair valuation of the undertakings as a whole to a single buyer—namely the Government. This point is at present being argued before the Court in the Short Brothers case. The Government itself has controlled the income of the undertakings during the war, but that income is at present falling seriously. On a net maintainable revenue basis, therefore, it would not necessarily follow that the total compensation payable to the companies would exceed the present offer—which involves the allotment of £1,024 million of stock by the Government. But that stock is to be issued on terms which the Treasury will decide when the transfer takes place. On present indications, therefore, it will carry a rate of interest of not more than 2½ per cent., and conceivably less. The present income of the railways and London Transport under the Rental Agreement is £43 million; the return on the compensation stock at 2½ per cent. would be £25½ million.

**Scramble for Yield**

The immediate impact of the railway compensation terms has been to increase enormously the previous scramble for stocks which yield something more than the present attenuated returns on gilt-edged. Holders of railway stocks—of whom there are about a million, in widely differing financial circumstances—have been trying to find something better than the prospective 2½ per cent. Their stocks are at several points discount, compared with the parities offered by the Government. At these levels they represent options to buy gilt-edged stocks "on the cheap," and fairly large institutional investment buying has resulted, which has drained off such support as was being given to the 2½ per cent. Treasury Stock tap. The *Financial Times* ordinary share index, meanwhile, has jumped through its previous "high" to 130.7, though the yield on the constituent stocks, thanks to the recent series of increased dividends, has not declined lower than 3½ per cent. In a closed capital market, however, it is clear that the consequence of railway compensation, after the cheap money initiative of the Chancellor during the past year, must be a further levelling of yields, over the entire range of securities, and an increasing disinclination to take gilt-edged while there is any better alternative.

## Points from Published Accounts

### Lever Brothers and Unilever

It is appropriate, since Mr. Geoffrey Heyworth, the chairman of Lever Brothers and Unilever, was a member of the Cohen Committee, that the company's accounts for 1945 should give effect to the Committee's recommendations so far as is practicable. They embrace statements for both Lever Brothers and Unilever, Ltd., the English company, and Lever and Unilever, N.V., the Dutch company, and thus mark a resumption of the practice which was perforce broken during the war. It has not been found possible to separate the gross book values and depreciation provisions of the various classes of operating assets such as land, buildings, plant, etc., but there is a statement showing that, whereas such assets amount to £64,450,272 gross for the two companies combined, total provisions of £35,212,400 have been made for depreciation. The key documents are consolidated balance sheets and profit and loss accounts for each of the parent concerns individually, and for the group as a whole. In each instance there is an elaborate annotation, bringing out the significance of the various items, and comparative figures for the previous year are provided. An interesting feature is the disclosure of directors' emoluments (these amounted to £259,087 for 23 directors, but each member of the board is a full-time working director), and of payments to former directors for pensions (£20,115), and loss of office (£11,730). This is undiluted Cohen, and, indeed, the information submitted to shareholders goes far beyond the Committee's suggested requirements. Thus, there is an analysis of the group's turnover, breaking down sales into various groups of commodities and products, and the directors present, too, some notes on organisational structure, supported by a chart, demonstrating how broad policy is kept under central determination while preserving freedom of action within divisions, groups, and national managements. The group has total assets of £241,493,654—its working capital alone is £66,044,575—and its importance, and the number and extent of the technical difficulties involved, make it especially significant that such a whole-hearted attempt has been made to give shareholders a comprehensive view of the position. Indeed, if there is one valid criticism, it is that most shareholders will have difficulty in absorbing the wealth of information; but we understand that the board proposes in future years to publish a simple and easily assimilable statement for those with limited time and accounting knowledge, and to accompany this with a fuller review for the more expert. Here again the group will be setting an example by attempting to find the right compromise between the need for full information and the difficulty experienced by many investors in following anything but the simplest statement of affairs.

### R. and W. Hawthorn, Leslie and Co.

The profit and loss account of R. and W. Hawthorn, Leslie and Co. takes the barest form. The net profit is described as "balance for the year including income from investments and after providing for depreciation, taxation and contingencies." It is, indeed, struck after deducting all charges except directors' fees, and the amounts involved by these debits are left unstated. This is the more to be regretted since an advance in net profit from £127,515 to £193,298, combined with the appearance of an E.P.T. post-war refund account on the liabilities side, inevitably encourages conjecture about the company's E.P.T. position. The statement

of fixed assets is also capable of useful expansion, the book value of £683,767 for freehold and leasehold land, buildings, machinery, plant, etc., being based on a 1911 valuation with subsequent additions at cost, less sales and depreciation. It would be helpful to have the gross figure given for the separate classes of assets and accumulated depreciation (together with the amount of the current year's provision) deducted separately. It would also be an improvement to have the total for stocks, stores, works in progress, etc., given at its gross amount. Although not so described, the £4,874,410 entry for this item is evidently a net figure, for the £6,479,997 creditors item includes instalments received on account of work in progress. It is a deficiency that these instalments are lumped with sundry creditors and provision for taxation and contingencies without the make-up of this omnibus figure being disclosed. The figure, incidentally, does not allow for final dividend and bonus appropriations, and similarly the general reserve is shown at £785,000 before taking in the £75,000 transfer recommended from the year's profits. On all these counts the balance-sheet is capable of being improved. But it deserves to be added that British and Colonial Government securities are brought in separately from miscellaneous investments of £44,404, and that their book value of £1,206,313 is shown to compare with a market worth of £1,285,000.

### London Express Newspaper

It is, perhaps, not surprising that the report of the directors of the London Express Newspaper should show in detail the progress of the company's publications, for in the newspaper world the estimated increases in sales are effective publicity, besides being of direct interest to shareholders. But the consolidated profit and loss account shows conclusively that propaganda is not the directors' main concern, for here shareholders are given absorbing details of revenue and expenditure which a less confident management might be tempted to regard as playing into the hands of competitors. Thus, net newspaper sales of £4,063,886 are stated separately from net advertising revenue of £876,046, miscellaneous revenue of £63,946, and dividends of £2,100 from trade investments. Expenditure is similarly broken down, the chief debit being one of £4,402,060 for production, distribution, establishment, management, and general expenses. In addition, there are entries, of £64,162 for remuneration and fees to executive directors of the parent company, £4,800 for remuneration and fees to directors of subsidiary companies, £102,319 for depreciation and amortisation, and £316,337 for tax provision. The last-named item compares with a net surplus of £116,300, and the relationship between these two entries suggests that a substantial sum may have been absorbed by E.P.T. That being so, it is a pity that the tax debit does not distinguish between E.P.T. and income tax, for the revenue results of future years may well bear a different aspect. In the consolidated balance sheet, goodwill and copyrights at cost of £564,961 are bracketed with the excess cost of shareholdings in subsidiary companies over their par values to make a total of £1,052,799 for intangible assets, but against that there are reserves and undistributed profits, including E.P.T. post-war refund suspense accounts of £145,885, amounting to £496,141. A balance-sheet note explains that the E.P.T. refund represents the amount already received, and that the total refund to which the group is entitled is estimated at £170,000.



# Solicitors' Accounts

## The Accountant's Certificate Rules

We reproduce below the text of the Accountant's Certificate Rules, 1946, under which every solicitor is now required to have his accounts examined by an accountant and to deliver an accountant's certificate every year. The Rules are discussed in our editorial on page 334.

Every accountant who is asked to examine a solicitor's accounts should study the booklet on "Solicitors' Accounts," which has been published by The Law Society. This contains an explanatory memorandum followed by the text, with extensive notes, of the following statutory provisions and the Rules made under each:

Section 1 of the Solicitors Act, 1933, and the Solicitors' Accounts Rules, 1945.

Section 18 of the Solicitors Act, 1941, and the Solicitors' Trust Accounts Rules, 1945.

Section 1 of the Solicitors Act, 1941, and the Accountant's Certificate Rules, 1946.

The notes to the Accountant's Certificate Rules are reproduced below so far as they relate directly to the work of the accountant, but the booklet contains further notes concerned more particularly with the practice of the solicitor.

A copy of the booklet has been sent to each practising member of the Society of Incorporated Accountants in England and Wales. Copies are obtainable on request by other members from the Secretary of the Society at Incorporated Accountants' Hall.

### The Accountant's Certificate Rules, 1946

*Rules dated September 20, 1946, made by the Council of The Law Society under Section 1 of the Solicitors Act, 1941 (4 & 5 Geo. 6, cap. 46) with respect to the delivery by solicitors to the Registrar of Solicitors of Accountants' certificates.*

1. These Rules may be cited as the Accountant's Certificate Rules, 1946, and shall come into operation on the 16th day of November, 1946.

2.—(1) In these Rules the expressions "trust money," "client," "client account" and "client's money" shall have the meanings respectively assigned to them by the Solicitors' Accounts Rules, 1945, but in the case of a solicitor holding one of the offices to which Section 4, 5, 6 or 7 of the Solicitors Act, 1933, applies, "client's money" shall not extend to money held or received by him in the course of his employment in such office, or to money paid without delay into an account subject to public or official audit.

(2) Other expressions herein shall have the meanings assigned to them by the Solicitors Acts, 1932 to 1941.

*Note.*—It will be observed that the definition of "solicitor" is the same as that in Section 81 of the Solicitors Act, 1932, and, unlike the definition in the Solicitors' Accounts Rules, does not include a firm of solicitors; an accountant's certificate will accordingly be required for each member of a firm of solicitors.

(3) The Interpretation Act, 1889, shall apply to these Rules in the same manner as it applies to an Act of Parliament.

3.—(1) An accountant shall be qualified to give an accountant's certificate on behalf of a solicitor if—

(a) he is a Member of—

- (i) The Institute of Chartered Accountants in England and Wales, or
- (ii) The Society of Incorporated Accountants and Auditors, or
- (iii) The Association of Certified and Corporate Accountants, or
- (iv) The Society of Accountants in Edinburgh, or
- (v) The Institute of Accountants and Actuaries in Glasgow, or
- (vi) The Society of Accountants in Aberdeen; and

(b) he has neither been at any time during the accounting period, nor subsequently, before giving the certificate, become, a partner, clerk or servant of such solicitor or of any partner of his; and

(c) he is not subject to notice of disqualification under paragraph (2) of this Rule.

(2) In either of the following cases, that is to say, where—

(a) the accountant has been found guilty by the Disciplinary Tribunal of his professional body of professional misconduct or discreditable conduct, or

(b) the Council are satisfied that a solicitor has not complied with the provisions of the Solicitors' Accounts Rules in respect of matters not specified in an accountant's certificate and that the accountant was negligent in giving such certificate, whether or not an application be made for a grant out of the Compensation Fund,

the Council may, at their discretion, at any time notify the accountant concerned that he is not qualified to give an accountant's certificate, and they may give notice of such fact to any solicitor on whose behalf he may have given an accountant's certificate, and after such accountant shall have been so notified, unless and until such notice of disqualification shall have been withdrawn by the Council, he shall not be qualified to give an accountant's certificate. In coming to their decision the Council shall take into consideration any observations or explanations made or given by such accountant or on his behalf by the professional body of which he is a member.

*Note.*—One of the objects of the Accountant's Certificate Rules is to protect the Compensation Fund from calls upon it which would be avoided or reduced if irregularities were brought to light in good time: for this reason it is necessary for the Council to have a discretion to disqualify an accountant in the cases mentioned in the rule.

4.—(1) With a view to the signing of an accountant's certificate an accountant shall not be required to do more than—

- (a) make a general test examination of the books of account of the solicitor;
- (b) ascertain whether a client account is kept;
- (c) make a general test examination of the bank passbooks and statements kept in relation to the solicitor's practice;
- (d) make a comparison, as at not fewer than two dates selected by the accountant between—
  - (i) the liabilities of the solicitor to his clients and, if trust money has been paid into the client account under the Solicitors' Trust

- Accounts Rules, to the *cestuis que trustent*, as shown by his books of account; and  
(ii) the balances standing to the credit of the client account; and

(e) ask for such information and explanations as he may require arising out of (a) to (d) above.

(2) If after making the investigation prescribed by paragraph (1) of this Rule, it appears to the accountant that there is evidence that the Solicitors' Accounts Rules have not been complied with, he shall make such further investigation as may be necessary to enable him to sign the accountant's certificate.

*Note.*—Rule 4 divides the duties of the accountant into two parts. The first part may be termed the normal examination, which it is suggested should be—

- (a) To examine the general book-keeping system in the office, with particular reference to the questions whether proper ledger accounts for clients have been kept, whether these accounts show separately from any other transactions on behalf of each client, client's money received, held or paid on behalf of each client, and whether separate cash books or cash accounts have been kept in order to segregate client's money from any other money received, held or paid by the solicitor; and to make test checks of castings and postings of these books, and to "test vouch" the cash book.
- (b) To ascertain whether a client account is kept at a bank.
- (c) To reconcile the balances on the client account (bank account) with the cash book in which the solicitor records transactions on client account at the dates selected in (d) *infra*, and to test the daily lodgments with, and payments from, the bank with those shown in the cash book.
- (d) To extract client ledger balances at selected dates and to agree these balances with cash held on client account.
- (e) To enquire into and test check the system of recording costs and making transfers from client account to office account.
- (f) To scrutinise the ledger accounts in order to ascertain that payments from client account have not been made on any individual account in excess of cash held on behalf of that client and to vouch a few accounts with that object.
- (g) To scrutinise the office cash accounts and passbook with a view to ascertaining that client's money has not been paid in error into the wrong account.

Having satisfied himself on these points the accountant will, it is hoped, feel able in the straightforward case to give a certificate to the solicitor; only where the accountant is faced at this stage with evidence that the Solicitors' Accounts Rules have not been complied with should he feel compelled to make any more detailed investigations. Such more detailed investigation (which may be called the second part of the accountant's duties) should not normally be necessary, but where it is necessary the Council consider that the accountant should have a free hand to sift the matter thoroughly before completing the accountant's certificate with or without qualification.

The comparisons which the accountant is required to make under Rule 4 (1) (d) must be as at not fewer than two dates selected by him, but it is entirely within his discretion whether the actual making of these comparisons is done at one visit or at more than one visit to the solicitor's office.

Where the accountant makes on the instructions of the solicitor a complete audit of the solicitor's accounts (in so far as a complete audit is practicable), he is entitled to give an accountant's certificate without making any of the specific "test checks" or "test vouchings" mentioned above, and in particular without complying with paragraph (d) of this note.

5. An accountant's certificate delivered by a solicitor under these Rules shall be in the form set out in the Schedule to these Rules or in a form to the like effect approved by the Council.

6. The Council will in each practice year be satisfied that the delivery of an accountant's certificate is un-

necessary, and shall not require evidence of that fact, in the case of any solicitor who—

- (1) hold his first current practising certificate; or
- (2) after having for twelve months or more ceased to hold a current practising certificate, holds his next current practising certificate; or
- (3) holds a current practising certificate after having, in the declaration lodged by him with the Registrar to lead to the issue of that practising certificate, declared that either—
  - (a) the Solicitors' Accounts Rules did not apply to him because he had not, during the period to which such declaration referred, practised on his own account either alone or in partnership or held or received client's money; or
  - (b) he was exempt from complying with the Solicitors' Accounts Rules by virtue of holding one of the offices to which Section 4, 5, 6 or 7 of the Solicitors Act, 1933, applies and had not, during the period to which such declaration referred, engaged in private practice; or

- (4) has ceased to hold a current practising certificate and, if he has at any time after the 15th day of November, 1945, held or received client's money, has delivered an accountant's certificate covering an accounting period ending on the date upon which he ceased to hold or receive client's money; or
- (5) has at no time since the 15th day of November, 1945, held a current practising certificate or held or received client's money.

7. The accounting period specified in an accountant's certificate delivered during the practice year beginning on the 16th day of November, 1946, shall begin on—

- (1) the date to which the solicitor's books were last made up before the 16th day of November, 1946; or
- (2) if the books were not made up during the practice year beginning on the 16th day of November, 1945, either the 16th day of November, 1945, or the day upon which the solicitor first began or began again to hold or receive client's money, whichever be the later;

and shall cover not less than six months or, in the case of a solicitor retiring from practice who has ceased to hold or receive client's money after the 15th day of November, 1945, the period up to the date upon which he so ceased.

8. In any practice year beginning on or after the 16th day of November, 1947—

- (1) in the case of a solicitor who—
  - (a) becomes under an obligation to deliver his first accountant's certificate, or
  - (b) having been exempt under Rule 6 of these Rules from delivering an accountant's certificate in the preceding practice year, becomes under an obligation to deliver an accountant's certificate,

the accounting period shall begin on the date upon which he first held or received client's money or, after such exemption, began again to hold or receive client's money, and may cover less than twelve months, and shall in all other respects comply with the requirements of Sub-section (5) Section 1 of the Solicitors Act, 1941; and



- (2) in the case of a solicitor retiring from practice who, having ceased to hold or receive client's money, is under an obligation to deliver his final accountant's certificate, the accounting period shall end on the date upon which he ceased to hold or receive client's money, and may cover less than twelve months, and shall in all other respects comply with the requirements of Sub-section (5) of Section 1 of the Solicitors Act, 1941.

9.—(1) In any practice year beginning on or after the 16th day of November, 1947, in the case of a solicitor who—

- (a) was not exempt under Rule 6 of these Rules from delivering an accountant's certificate in the preceding practice year; and  
(b) since the expiry of the accounting period covered by such accountant's certificate has become, or ceased to be, a member of a firm of solicitors;

the accounting period may cover less than twelve months and shall in all other respects comply with the requirements of Sub-section (5) of Section 1 of the Solicitors Act, 1941.

- (2) In the case of a solicitor who has two or more places of business—

- (a) separate accounting periods, covered by separate accountants' certificates, may be adopted in respect of each such place of business, provided that the accounting periods comply with the requirements of Sub-section (5) of Section 1 of the Solicitors Act, 1941, and with these Rules; and  
(b) the accountant's certificate or accountants' certificates delivered by him to the Registrar in each practice year shall cover all client's money held or received by him.

10. Every notice to be given by the Council under these Rules to a solicitor shall be in writing under the hand of the Secretary and sent by registered post to the last address of the solicitor appearing in the Roll or in the Register kept by the Registrar under Sub-section (2) of Section 37 of the Solicitors Act, 1932, as amended and re-enacted by Section 7 of the Solicitors Act, 1941, and, when so given and sent, shall be deemed to have been received by the solicitor within forty-eight hours of the time of posting.

11. Every notice to be given by the Council under these Rules to an accountant shall be in writing under the hand of the Secretary and sent by registered post to the address of the accountant shown on an accountants' certificate or appearing in the records of the accountancy body of which the accountant is a member, and, where so given and sent, shall be deemed to have been received by the accountant within forty-eight hours of the time of posting.

12. The Council shall have power to waive in writing any of the provisions of these Rules, other than those of paragraph (2) of Rule 3, in any particular case.

### THE SCHEDULE

#### Form of Accountant's Certificate

1. In compliance with Section 1 of the Solicitors Act, 1941, and the Accountant's Certificate Rules, 1946, made thereunder, I (a)

, have examined the books, accounts and documents of (b)

or his firm (c), in respect of his practice(s) (c) { in partnership under the style of (d) }  
alone under the style of (d) }

at (e)  
for the accounting period, beginning on the day of  
19 , and ending on the day of  
19 . (f)

2. I certify that from my examination of the books, accounts and documents relating to the above practice(s) produced to me and from the information and explanations given to me I am satisfied that—

- (1) during the accounting period the said (b)

, has complied with the provisions of the Solicitors' Accounts Rules, except so far as concerns

- (g) certain trivial breaches of the Solicitors' Accounts Rules, due to clerical errors or mistakes in book-keeping, all of which were rectified on discovery. I am satisfied that none of such breaches resulted in any loss to any client;

- (g) the matters set out on the back hereof; and

- (2) (c) having retired from active practice as a solicitor, the said (b)

ceased to hold client's money on the day of  
19 . (h)

Dated this day of 19  
(Signature).....

To The Registrar of Solicitors,

Law Society's Hall,

Chancery Lane, W.C.2.

Notes.—(a) State the full name, firm name (if any), the address and professional qualifications of the accountant.

- (b) State the full name of the solicitor in respect of whom the certificate is given.

- (c) Delete as necessary.

- (d) State the firm name or names of the solicitor.

- (e) State the business address or addresses of the solicitor to which the certificate refers.

- (f) The accounting period to be covered by the certificate must comply with Sub-section (5) of Section 1 of the Solicitors Act, 1941, and with the Accountant's Certificate Rules, 1946.

- (g) One or other or both of the alternative sub-paragraphs marked (g) must be deleted. If the second alternative is allowed to stand a detailed note of all breaches of the rules should be endorsed on the certificate.

- (h) Where clause 2 (2) applies, this date must be the ending date of the accounting period as given at the end of clause 1.

### Books Received

A **Summary of the Principal Legal Decisions affecting Auditors.** By Sir Hugh Cocke, A.C.A. Fourth edition. (Gee & Co. (Publishers), Ltd., London. Price 12s. net.)

**Palmer's Examination Note Book for Accountancy and Secretarial Students.** By Alfred Palmer, A.S.A.A., F.C.C.S. Fifth edition. (Gee and Co. (Publishers), Ltd., London. Price 12s. 6d. net.)

A **Treatise on the Principles of Income Taxation.** By J. P. Hannan, LL.B., Barrister and Solicitor of the Supreme Court of Victoria. (Law Book Co. of Australasia Pty., Ltd., Sydney, N.S.W.; Sweet and Maxwell, Ltd., London. Price £2 10s. net.)

**LAW****Legal Notes****COMPANY LAW**

*Companies Act, 1929, Section 61 (1) (2)—Authority of petitioner—Communication.*

In *Re Provincial and Suburban Stores, Ltd.* (1943, Ch. 156), the Court of Appeal held that at the time of the presentation of a petition under Section 61 of the Companies Act, 1929, the petitioner must be fully clothed with authority by the requisite number of qualified shareholders, and that a defect in that respect could not be cured by shareholders subsequently giving him authority. In *Re Sound City (Films), Ltd.* (1946, 2 All E.R. 521), on September 9, 1946, L. presented a petition served on the company, asking for cancellation of an alleged variation of the rights of the preference shareholders. This was under Section 61. He alleged that he had been appointed in writing by a number of persons (whose names were in the schedule to the petition) to present the petition on their behalf as well as on his own. Those holders held more than 15 per cent. of the 134,800 issued preference shares. There were some errors in the schedule, and, when corrected, the total was appreciably less than the number required to show a title to sue. L. then filed an affidavit, setting out a new list of supporters. The total of preference shares in his new list exceeded 21,000, which, if correct, was sufficient to support the petition. It was clear that the individuals whose names were set out in the affidavit had in no way communicated any authority to the petitioner at the time he presented the petition. Section 61 (2) provides that an application to have the variation of rights cancelled must be made within seven days after the date on which the consent was given or the resolution was passed, as the case may be, and may be made on behalf of the shareholders entitled to make the application by such one or more of their number as they may appoint in writing for the purpose. There must be in the aggregate holders of at least 15 per cent. of the shares of the class concerned, being persons who did not consent to or vote in favour of the resolution challenged. In the present case, the question was whether it could be said that L. had been appointed in writing for the purpose of making the application by all the various persons indicated within seven days of the passing of the resolution. The petitioner's point was that the appointment in writing had in fact been made, although not communicated to him. But, said Evershed, J., the authorities held that, where the question at issue is title to sue, a petitioner suing on behalf of others under the Section must show that at the date of presenting the petition he was clothed with authority to do so. The petitioner in this case argued that he was clothed with the necessary authority although the shareholders had not communicated with him. But, the Court held, to comply with the Section, not only must the authority be in writing, but the fact of its having been given must have been communicated to the petitioner. The terms of the Section do not contemplate *ex post facto* ratification.

**EXECUTORSHIP LAW AND TRUSTS**

*Inheritance (Family Provision) Act, 1938—Order to be treated as legacy in will when made—Finance Act, 1941, Section 25.*

In *Re Pointer* (1946, 2 All E.R. 409), Wynn-Parry, J., decided an interesting point under Section 3 (1) of the Inheritance (Family Provision) Act, 1938, namely, that

upon the true construction of the Act, when an order for maintenance is made under the Act, the provision thereby made is to be treated as a legacy for all purposes and the will is to have effect as if that legacy were contained in the will when it was made. On the facts of the case, the provision under the Act for the weekly payment of thirty shillings to A.S. must be regarded as having been made by the will and not by the order; but the right of A.S. to receive the full sum of thirty shillings a week was not affected by Section 25 of the Finance Act, 1941, because the "provision for the payment of a stated amount free of income tax" to A.S. was not made until after September 3, 1939, namely, on December 7, 1939.

By an order made on December 17, 1940, under the Inheritance Act, the trustees of a will (the testatrix made it on March 30, 1938, and died on December 7, 1939) were directed to pay to A.S., a disabled daughter of the testatrix, out of the income arising from one-fifth part of the residuary estate, such a weekly sum as would amount to thirty shillings after deduction of income tax. The order further provided that, to give effect to the provisions for maintenance, the will should take effect as if it had been executed with the variation that the testatrix had directed her trustees to hold one-fifth part of her residuary estate upon trust out of the income thereof to make the payments in question to A.S. The question for determination was whether Section 25 of the Finance Act, 1941, applied as to the payments, so as to entitle her to receive only twenty twenty-ninths of the weekly amount of thirty shillings.

*Executors—Trust for sale—Rights of tenant for life and remainderman.*

In *Re Parry* (1946, 2 All E.R. 412), the testator by his will gave his residuary estate upon trust for sale and conversion with absolute power to postpone conversion. The income of the residue was to be paid to T.S.P., and after his death to O.S.P.; on the death of O.S.P., the residuary estate was to be divided among his children. The testator died in September, 1936. The estate included unauthorised investments which greatly increased in value in the first year after the testator's death. Various investments were realised in various years, and others were retained by the trustees. These did not include wasting assets. On the footing that the rule in *Howe v. Dartmouth* applied, the Court was asked to determine (a) the basis of valuation of the unauthorised investments; (b) the rate of interest to be allowed to the life tenants on the value of such investments. It was contended for the life tenants that the investments retained should be valued as at a year after the testator's death. Romer, J., held (1) when, as here, property was given on trust for sale with an unfettered power of postponement, the executors, when they retained assets in their existing condition, did so for the benefit of the estate as a whole, and the valuation of the unauthorised investments should, therefore, be based on their respective values as at the date of the testator's death. (2) In fixing the rate of interest to be allowed on the value of the unauthorised investments, the governing conditions were those prevailing at the testator's death, not those at the date of hearing of the summons. On the evidence of the position as at the testator's death, the rate should be 4 per cent. per annum.



# Society of Incorporated Accountants

## London District Society Luncheon

The first post-war social gathering of London Incorporated Accountants took the form of a luncheon at the Waldorf Hotel on October 29. Mr. C. V. Best, Chairman of the District Society, presided, and the guests included Mr. F. C. Hooper, Director of Business Training in the Ministry of Labour and National Service; Mr. F. Woolley, J.P., F.S.A.A., President of the Society of Incorporated Accountants; Captain A. E. Marples, M.P., F.S.A.A.; the Mayor of St. Marylebone (Mr. C. S. Steel, F.S.A.A., F.C.A.), Mr. A. Gunn, C.B.E., and Mr. C. B. McAlpine, Ministry of Labour and National Service, and a large attendance of members.

At the invitation of the Chairman, the company drank the toast of members returning from H.M. Forces.

## Business and Professional Training

Mr. F. C. Hooper, Director of Business Training in the Ministry of Labour and National Service, gave an address on "Business and Professional Training." He said the subject was particularly apt to accountancy, which on the one hand was a highly technical profession in its own right, based on a combination of long apprenticeship and detailed study, and on the other touched business intimately at many points. An accountant's training must therefore be designed (a) for the accountant as a professional man, and (b) to relate the profession effectively to the world of business.

## DANGERS OF SPECIALISATION

On the first aspect—training for a profession—he had recently read some remarks by that profound Spanish scholar and man of affairs, Ortega y Gasset, in a book on the Mission of the University just published in this country. Señor Ortega reviewed the proper equipment of what he called the "directive" class of society, at the head of which he put the Professional Man. He emphasised that to be merely a technician, however skilled, was not enough for the man who aspired to the higher levels of business or the higher ranks of the professions. This was not, of course, a plea that men should not specialise. But the very fact of specialisation should force us to take account of the need to correct its inevitable limitations by the addition of some general, cultural synthesis appropriate to these complex and swiftly-moving times. Señor Ortega in 1930 spoke of "the astounding spectacle of how brutal, how stupid, and yet how aggressive is the man learned in one thing and fundamentally ignorant in all else." Since then Hitler had risen to power on the use he made of specialists—of his scientists, of his mass-psychologists, and of his financier Schacht.

Men who were masters of their own profession or branch of business often made the most inept statements as soon as they stepped outside the narrow province in which they had been trained as experts. The reason was obvious: they were not complete men. They were one-eyed, or one-idea'd, capable of turning a penetrating searchlight on to one or two branches of experience, but only a myopic glance on to the rest of life. This defect might not matter much in the specialist technician employed solely in the lower levels of business or the professions, but it mattered very much, and each decade was likely to see it matter more, when the specialist concerned emerged into the directive class at the top.

## RESTRICTED SCOPE OF ACCOUNTANCY TRAINING

Mr. Hooper said he had looked carefully through the syllabus of training for the Society, but he could not find

that this problem was either realised or catered for to any effective extent. The universities scheme linked graduation with entry to the profession on favourable terms, and this was admirable. But the university courses, although not purporting to prepare candidates for the professional Final Examination, were none the less almost wholly technical in character. There was within them little or nothing of that liberal view of life and culture from which a man might gain a wide grasp of the humanities and of the basic principles of living, as the only proper foundation for directing affairs.

It might be suggested that the student who had quality enough to aspire to be an accountant should have already equipped himself at school in the general cultural sense, or at least laid the foundations; and that he could be expected to acquire general culture for himself, outside office hours, as a by-product of life itself. But the school-leaver could not be considered to have mastered any adequate general culture, because he was still at that stage without the necessary maturity of judgment. He was still unripened by any genuine experience of men or knowledge of affairs. On the second point, Mr. Hooper understood that training for accountancy was very severe, and mentally exhausting. The student, having done his practical work all day, must spend most of his evenings studying at home, and keep this up over a considerable period of years. Any hope that he could have sufficient mental energy left to make any effective attack upon the wider aspects of general culture must be regarded as illusory. His training, on the lines hitherto customary, must tend almost inevitably to narrow and seclude him.

There was a new development which seemed to be of the greatest possible promise, and which might go some way to meet the difficulty. The Government through the Further Education and Training Scheme, and the professional accountancy bodies, had come together to arrange for a greater proportion of accountancy training, at least in the case of ex-service men, to be taken during the daytime, thus leaving the student a far greater proportion of his evenings free for wider study and contacts. A similar trend was noticeable in industry, and in time would probably become the norm rather than the exception. The change would be as much in the long-term interests of the accountancy profession as of industry.

## THE ACCOUNTANT AS MANAGER

In his relation to business, the accountant must more and more be reckoned in the directive class, where the policy, and even the management, of business was concerned. The old-fashioned separatism between the "figures-man" and the executive—the former dispassionately and inexorably measuring the results of the latter's efforts in terms of assets and liabilities, profit and loss—was largely a thing of the past. Accountants were found in increasing numbers on the boards of businesses, exercising, if not the supreme control, something very close to it. In the near future there was likely to be a considerable extension of the public sector of industry and of public boards of many kinds, which would bear very sharply on the conduct of various branches of industry. On these Boards it was safe to say that accountants would be represented at the highest levels.

Mr. Hooper was not prepared to say whether this invasion of the field of general management by yet one more professional specialist, the accountant, was a good or a bad thing. But, since in fact the highest levels of

accountancy would evidently in future often lead to the highest managerial levels of business, it was important that the accountant of top-level calibre should be well equipped to grasp the whole field of business management, and to appreciate its basic principles.

It had long been held that a specialist could be expected to distil business principles from his experience, and that the fact that accountants in the course of their duties came in contact with differing types of businesses gave them a clear grasp of business principles. Mr. Hooper doubted this. The accountant would unerringly place his finger on the spot in a balance-sheet that augured danger or success, but the primal cause, and the steps necessary to be taken, would be outside the usual ambit of an accountant's experience.

#### NEED FOR TRAINING IN MANAGEMENT

It was within the province of business management to speculate, and within the province of the accountant mostly to advise against it. The results of unsuccessful speculation stood out in figures of fire, and he was not in a position to judge whether it was unsound in itself or doomed by bad management. The step from accountancy to management was thus a difficult one. A grounding in business management should be added to those subjects regarded as necessary for accountancy qualifications, otherwise intervention at high management level might well prove damaging, if not disastrous.

The present Final Examination and degree syllabuses did not appear to realise this problem. There was economics and law and various ancillary aspects of accountancy—subjects highly relevant to business management, but their study should be from the angle of the manager, whereas the approach shown in the syllabus was that of the technician—of the professional specialist. For instance, the subject of statistics, if approached from the specialist angle without any adequate "corrective" from the management side, might lead the student to believe that statistical control was a perfect panacea for the solution from an office desk of all sorts of problems in business management. This had been the root cause of the downfall of hundreds of businesses, and was no less a menace to the efficient management of public undertakings.

The practical question arose: How and at what stage could this broadening process be effected? Could it be left until the later stage of a career, the time when it would be actually wanted? Or should it take its place at a relatively early stage? Mr. Hooper felt that the latter was the only sound answer. The time to see the whole wood was before, not after, one had become deeply pre-occupied with the trees.

But there was a limit to the capacity of the student to learn, and the curriculum was already so packed that it was probably more than anyone could really master. The remedy must, therefore, lie in a new approach and in seeking to establish a certain attitude of mind.

#### SUGGESTED REMEDIES

More university graduates in the liberal subjects should be encouraged to enter business and those professions which impinged on business. At present there was an overwhelming proportion of graduates whose approach to and choice of degree subjects was mainly vocational. One of the most interesting and fruitful features of the Government's Business Training Scheme was that it was bringing into business a high quality type of man, many with university degrees and most of them of university calibre, who had had the widening and maturing influence of war experience. A similar service was being done for the professions by the Further Education and Training Scheme. Mr. Hooper looked forward to the time when the university student who wished to go into business or accountancy would be

able to take as a subsidiary subject a first-class introductory general course upon the structure of business and the principles of business management analogous to the general course in the Ministry's Business Training Scheme, though with modifications to bring it up to full university level. The student would thus from the very outset of his career be well placed to keep abreast of developments in this field, so that when the time came later to play an active part in the higher levels of administration, he would appreciate the need of mastering the subject more fully and would know how to do so.

The importance of the projected Administrative Staff College to business and professional training at higher levels should not be overlooked. Its function would be to take those who had already achieved a position of marked promise and considerable practice in business management and in the equivalent fields of public administration, and bring them together so that they might fertilise one another, while providing them with the opportunity to add a cutting edge and final polish to their previous training and practical experience.

#### Vote of Thanks

Mr. F. Woolley, J.P., F.S.A.A., President of the Society of Incorporated Accountants, proposed a hearty vote of thanks to Mr. Hooper for his address, and to Mr. Best for presiding. This was carried by acclamation.

### COUNCIL MEETING

NOVEMBER 21, 1946

Present: Mr. F. Woolley, President (in the chair), Sir Frederick Alban, C.B.E., Vice-President, Mr. John Ainsworth, M.B.E., Mr. A. Stuart Allen, Mr. C. Percy Barrowcliff, Mr. Robert Bell, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. M. J. Faulks, M.A., Mr. A. B. Griffiths, Mr. C. A. G. Hewson, Sir Thomas Keens, D.L., Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. T. Harold Platts, Mr. R. E. Starkie, Mr. Percy Toothill, Mr. Joseph Turner, Mr. A. H. Walkley, Mr. Richard A. Witty, Mr. A. A. Garrett, Secretary, and Mr. I. A. F. Craig, Assistant Secretary.

Apologies for non-attendance were received from: Mr. R. Wilson Bartlett, Mr. Alexander Hannah, Mr. D. R. Matheson, M.A., Mr. James Paterson, Mr. F. A. Prior, Mr. Joseph Stephenson, O.B.E., and Mr. R. E. Yeabsley, C.B.E.

#### DEPARTMENT OF APPLIED ECONOMICS, CAMBRIDGE

The Council expressed their pleasure at the appointment by the Nuffield Foundation of Mr. F. Sewell Bray, F.S.A.A., F.C.A., as a Senior Fellow in the Department of Applied Economics in the University of Cambridge.

#### SOLICITORS' ACCOUNTS

A report was received of conferences between the Council of the Law Society and representatives of the accountancy profession. It was reported that the Law Society had now published a pamphlet setting forth the Solicitors' Accounts Rules and the Accountant's Certificate Rules, 1946, relating to the examination of solicitors' accounts by accountants, and setting forth the character of the examination to be carried out and the form of the accountant's certificate. The new rules came into force on November 18, 1946. A copy of the pamphlet had been dispatched to all practising members of the Society in England and Wales.

#### SOUTH AFRICAN MATTERS

The Council received reports from the Society's three South African Committees and the minutes of the Advisory Council of the Society in South Africa, consisting of representatives of each Branch, held in the summer of 1946. The Advisory Committee had agreed that each Branch in South Africa should make a contribution to the Society's Head Office for the purpose of the restoration of Incorporated Accountants' Hall. The Council adopted a resolution expressing their cordial thanks for the generous gift, and the President intimated that he had personally communicated with the Chairmen of the Branches concerned expressing the appreciation of the whole Society.

#### DISTRICT SOCIETIES

Information was received of the activities of District Societies, and the President reported his visit to Manchester



in October, 1946, to attend a dinner given to celebrate the Sixtieth Anniversary of the Manchester District Society.

#### RESIGNATIONS

It was reported that the following resignations had been accepted with regret, with effect from December 31, 1946: Cheesbrough, John Robert (Associate), Churwell, near Leeds.

Marshall, Henry Rissik (Fellow), London.

Ogg, Frederick William (Associate), Nottingham.

#### DEATHS

The Secretary reported the death of each of the following members:

Cooper, William Francis Alfred (Associate), London.

Farrow, Arthur (Associate), Leeds.

Foden, William Edmund (Associate), Chapel-en-le-Frith, Derbyshire.

Patterson, Edward James (Fellow), London.

Roberts, John Russell (Associate), St. Helier, Jersey, C.I.

Salmon, Henry Thomas (Fellow), London.

Notcutt, Harold James (Associate), Cape Town, South Africa.

Whiteley, Leslie Alexander (Fellow), Johannesburg, South Africa.

## DISTRICT SOCIETIES AND BRANCHES

### SCOTTISH BRANCH

A meeting of the Council of the Scottish Institute of Accountants, the Scottish Branch of the Society, was held in Edinburgh on October 9. Mr. D. R. Matheson, LL.B., F.S.A.A., presided.

The Secretary, Mr. James Paterson, reported a large increase in the number of enquiries regarding the Society's examinations, and also of applications to sit the Final Examination. The Council dealt with a number of matters connected with the interests of the members and candidates in Scotland, and a report was submitted by the representatives of the Scottish Branch on the London Council.

After the Council meeting a luncheon, attended by members of the Society resident or practising in Edinburgh and district, was held in the Royal British Hotel, Edinburgh. Mr. D. R. Matheson, LL.B., President of the Scottish Branch, presided, and was supported by Sheriff-Principal Charles Milne, K.C., Mr. J. D. Imrie, C.B.E., B.Com., Mr. John Stirling, B.Com. (Chief Accountant, Department of Health for Scotland), Mr. P. G. S. Ritchie and Mr. Robert Fraser, Vice-Presidents, Mr. James Paterson, Secretary, and a good attendance of members.

The Chairman said it had been a practice prior to the war for the Scottish Council to hold one meeting in Edinburgh, which gave them an opportunity of meeting members of the Society practising or employed in the Edinburgh area. As a recently appointed representative of the Scottish Branch on the London Council, he was just finding out the many problems which that Council had to deal with, especially at the present time. Every consideration was given to the post-war problems of candidates. Co-ordination of the profession had reached a stage when one could reasonably hope for some definite action to be taken on an early date.

Sheriff-Principal Charles Milne, K.C., also addressed the meeting. A vote of thanks to the Chairman for presiding and to the Secretary for arranging the meeting was moved by Mr. P. G. S. Ritchie, and cordially adopted.

### BRADFORD

#### Syllabus of Lectures, 1946-47

1946

Dec. 4 Discussion, "Principles and Practice of Insolvency." Opened by Mr. A. V. Hussey, F.S.A.A. Chairman: Mr. A. P. Burton, F.S.A.A.

Dec. 11 Debate between Chartered and Incorporated Students' Societies.

Dec. 18 "Executorship Law and Accounts," by Mr. A. E. Langton, LL.B., A.S.A.A., A.C.A. Chairman: Mr. W. S. Wilson, A.S.A.A.

1947

Jan. 29 "Income Tax Case Law," by Mr. James S. Heaton, A.S.A.A. Chairman: Mr. C. Simpson, A.S.A.A.

Feb. 13 "Holding Companies and their Accounts," by Mr. R. Glynne Williams, F.C.A. Chairman: Mr. G. R. Lavson, B.Com., F.S.A.A.

Feb. 25 "Finance," by Mr. R. E. Bird, B.Sc. (Econ.). Chairman: Mr. A. B. Kitchen, F.S.A.A.

Mar. 12 Discussion on Auditing Problems. Chairman: Mr. F. G. Stringer, A.S.A.A.

Mar. 27 "Britain's International Trade Position," by Mr. Leo T. Little, B.Sc. (Econ.). Chairman: Mr. C. E. Thomas, F.S.A.A.

Meetings will be held at the Liberal Club, Bank Street, Bradford, at 6.15 p.m.

Students are invited to attend lectures arranged by the Chartered Students' Society, and a copy of their syllabus can be obtained from the Secretary's office, Bank Chambers, North Parade, Bradford.

### MANCHESTER

#### Syllabus of Meetings, Spring Session, 1947

1947

Jan. 17 Joint Meeting with the Association of H.M. Inspectors of Taxes, Manchester Centre, who will arrange "Mock-Income Tax Appeals." Venue to be announced later.

Jan. 29 "Executorship and Trust Accounts," by Mr. J. Linahan, A.S.A.A. Students' Meeting, 6 p.m., Estate Exchange.

Feb. 7 "Tax and General." Members' Discussion Meeting, 6 p.m., Midland Hotel.

Feb. 14 "Quiz." Students' Meeting. 6.15 p.m., Estate Exchange.

Feb. 28 "Income-Tax Act, 1945," by Mr. H. A. R. J. Wilson, F.S.A.A. Members' Meeting, 6 p.m., Midland Hotel.

Mar. 21 "Accounting Control and Industry," by Mr. J. J. Ellsden. Members' Meeting. 6 p.m., Midland Hotel.

A Refresher Course for students and members who have served in the Forces will be arranged for a period commencing in March, 1947.

### NORTH LANCASHIRE

Incorporated Accountants in North Lancashire paid a tribute to the former Honorary Secretary of the District Society, Mr. John Wareing, F.S.A.A., at a social evening at Preston on October 31. A presentation of a gold cigarette case was made by Mr. W. Allison Davies, C.B.E., F.S.A.A., formerly Borough Treasurer of Preston, and member of the Council of the Society of Incorporated Accountants, who was supported by Mr. Walter H. Marsden, President of the District Society, Mr. Donald W. Wilkinson, Vice-President, and a good gathering of members. Mr. Davies referred to Mr. Wareing's long service over twenty-seven years, and to his unflinching patience, energy and enthusiasm. During his tenure of office he had been the mainspring of the Society's activities in North Lancashire, and it was largely due to his efforts that the District Society was in such a strong position. Mr. Wareing replied.

### SOUTH OF ENGLAND

#### Lectures at Portsmouth

To be held at Portsmouth Gas Company's Demonstration Room, Guildhall Square, Portsmouth.

1947

Jan. 21 "Modern Auditing," by Mr. W. W. Bigg, F.S.A.A., F.C.A. 5.15 p.m.

Mar. 18 "Executorship Law," by Mr. Charles L. Lawton, M.Sc. (Econ.), Barrister-at-Law. 6.15 p.m.

Apr. 8 "Economics," by Mr. Leo T. Little, B.Sc. (Econ.), Lecturer in Economics, University College, Exeter. 6.15 p.m.

#### Lectures at Bournemouth

1946

Dec. 19 "Company Law Amendment," by Mr. W. Bertram Nelson, F.S.A.A.

1947

Jan. 16 "Modern Auditing Procedure," by Mr. R. Glynne Williams, F.C.A., F.T.I.I.

Mar. 20 "Executorship Law," by Mr. Charles L. Lawton, M.Sc. (Econ.), Barrister-at-Law.

Apr. 10 "Economics," by Mr. Leo T. Little, B.Sc. (Econ.), Lecturer in Economics, University College, Exeter.

**Lectures at Southampton**

To be held at Blue Peter House, 8 and 10, Portland Terrace, Southampton.

- 1947  
 Jan. 29 "Modern Auditing," by Mr. W. W. Bigg, F.S.A.A., F.C.A. 5.15 p.m.  
 Mar. 19 "Executorship Law," by Mr. Charles L. Lawton, M.Sc. (Econ.), Barrister-at-Law. 7.15 p.m.  
 Apr. 9 "Economics," by Mr. Leo T. Little, B.Sc. (Econ.), Lecturer in Economics, University College, Exeter. 7.15 p.m.

**PERSONAL NOTES**

Alderman C. S. Steel, J.P., F.S.A.A., F.C.A., a partner in Messrs. Wright, Fairbrother and Steel, has been re-elected Mayor of St. Marylebone.

Mr. Colin Thirk, Incorporated Accountant, a partner in Messrs. Ransom Harrison and Lewis, has been elected to the City Council of Sheffield as a Progressive, with a majority of 2,289 over his Socialist opponent.

Mr. C. Yates Lloyd, Incorporated Accountant, announces that he has taken Mr. W. S. Newton, Incorporated Accountant, into partnership. The practice will be continued at 2, Cooper Street, Manchester, under the same firm name of Lloyd, Piggott and Co.

Mr. C. Dudley Thayer, Incorporated Accountant, has commenced in public practice at 76, Claremont Road, Wallasey.

Mr. J. H. Henderson, F.S.A.A., announces that as from November 1, 1946, he has admitted Mr. Ivor Griffiths, A.S.A.A., to partnership in his South Wales practice, which will from that date be carried on as J. H. Henderson, Griffiths and Co., Incorporated Accountants, 9, Park Place, Cardiff. Mr. Henderson's London practice will be carried on as heretofore as J. H. Henderson and Co., Incorporated Accountants, 3, Albemarle Street, London, W.1.

Mr. N. E. Fullwood, A.S.A.A., and Mr. T. W. Hunt, A.S.A.A., have entered into partnership and are practising at 9, Market Place, Doncaster, under the style of Fullwood, Hunt & Co., Incorporated Accountants.

Mr. Percy Mitchell, Incorporated Accountant, has entered into partnership with Mr. John L. Rodrigues, Certified Accountant. The practice will be carried on under the style of Mitchell, Rodrigues & Co., at Chichester House, Chichester Rents, Chancery Lane, London, W.C.2.

Mr. H. Vincent Vale, F.S.A.A., Chief Accountant, Powell Duffryn Associated Collieries, Ltd., has been appointed a director of the company.

The practice of the late Mr. James Hope, F.S.A.A., is now being carried on by Mr. Arnold Halstead, A.S.A.A., on his release from H.M. Forces, under the style of James Hope, Sons & Co., Incorporated Accountants, 49, Knowsley Street, Bury.

**REMOVALS**

Mr. F. Lancaster, Incorporated Accountant, has moved his offices from 136, Lawrence Street, York, to National Provincial Bank Chambers, 1, Market Street, York.

Messrs. K. H. Gutgutia & Co., Incorporated Accountants, announce that they have removed their offices to Central Bank Buildings, 100, Clive Street, Calcutta, and have established branches at Bombay, Jaipur City, Cawnpore and Dhanbad, Bengal.

Mr. A. G. Fettes, Incorporated Accountant, has moved his office from 48, Gresham Street, London, E.C.2, to 2-3, Norfolk Street, London, W.C.2. He also announces that he has taken Mr. M. W. Monkhouse, F.C.A., into partnership, and the style of the firm is now A. G. Fettes, Monkhouse & Co.

**OBITUARY****STANLEY WILLIAM ROWLAND**

The news of the death on October 31 of Mr. Stanley W. Rowland, J.P., LL.B., F.C.A., has been received with deep regret throughout the accountancy profession. He was the only son of the late Sir William Rowland, F.S.A.A., Southampton. Mr. S. W. Rowland became a member of the Institute of Chartered Accountants in 1910, and later was admitted to partnership in Messrs. Sellars, Dicksee & Co. He was keenly interested in professional education, and was an able and lucid lecturer. The appointments held by him included those of Reader in Accounting at the London School of

Economics, lecturer and examiner for the Law Society School of Law, and examiner for the University of London, the Institute of Bankers, and the Institute of Chartered Accountants. As recently as last September he acted as Director of Studies at the Refresher Course held by the Institute at Downing College, Cambridge, and the members of the Course recorded their "affectionate and very real thanks to our wise counsellor and friend, Mr. Rowland." He was also well known as a writer on professional subjects, being the author of textbooks on accounting, depreciation, and income tax, and editor of the later editions of works by Professor Dicksee. The profession is indebted to him for his work as Secretary of the Institute's Taxation and Financial Relations Committee.

The funeral took place at the South London Crematorium on November 6. The President and Council of the Institute of Chartered Accountants were represented by Mr. F. R. M. de Paula, O.B.E., F.C.A., the Taxation and Financial Relations Committee by Mr. P. M. Rees, M.C., F.C.A., and the Secretary and staff of the Institute by Mr. C. H. S. Loveday, A.C.A.

**HENRY THOMAS SALMON**

The death occurred on October 22 of Mr. H. T. Salmon, F.S.A.A., A.C.A., at the age of 80. He was senior partner of Messrs. H. T. Salmon and Co., 133, Aldersgate Street, E.C.1, and had continued in practice up to the date of his death. Mr. Salmon was educated at King's College School in the Strand, and later entered the offices of Messrs. Hill, Vellacott and Co. He qualified as an Incorporated Accountant in 1893, having taken second place in the Final Examination, and commenced practice in 1895 in the City of London in partnership with the late Mr. E. H. Barnaschone, F.S.A.A. In 1939 the present firm of H. T. Salmon and Co. was constituted in partnership with his son, Mr. G. F. Salmon, F.C.A., and Mr. W. A. Chapman, F.S.A.A. Mr. Salmon was of a retiring disposition, and did not enter into public life, but he will be sadly missed by a wide circle of friends and clients.

**JOHN WARDROP ROSS**

We learn with regret that Mr. John W. Ross, LL.D., C.A. (Canada) died at Montreal on August 11 at the age of 76. He was a partner in Messrs. P. S. Ross and Sons, practising at Montreal and elsewhere in Canada, and was the twin brother of the late Mr. A. F. C. Ross, F.S.A.A., also a partner in the firm, who was Honorary Secretary of the Canadian Branch of the Society of Incorporated Accountants from 1905 till 1928, and then Chairman until his death in December, 1941. Mr. John W. Ross was a director of many public companies, and was well known for his valuable work in many capacities in business, social and religious activities in Montreal.

**EDWARD JAMES PATTERSON**

The death occurred on November 8, 1946, of Mr. E. J. Patterson, F.S.A.A., formerly senior partner of Messrs. Patterson, Greenwood & Co., 120, Moorgate, London, E.C.2. Mr. Patterson was 82 years of age, and had been a member of the Society of Incorporated Accountants since 1898. He was a Freeman of the City of London, and was in public practice in the City from 1916 until his retirement in 1941.

**WILLIAM JAMES WOOD**

We regret to record the sudden death on November 13 of Mr. William James Wood, F.S.A.A., one of the oldest members of the Scottish Branch. Mr. Wood was senior partner of Messrs. Moir, Wood & Co., Incorporated Accountants, Perth, having been associated with the firm for over half a century, for the greater part of that time in partnership with Mr. W. B. Sievwright, F.S.A.A. Mr. Wood became a member of the Scottish Institute of Accountants, now the Scottish Branch of the Society, in April 27, 1896, and was elected a member of the Council of the Scottish Branch in 1912.

**The Schoolboys' Own Exhibition**

The Society of Incorporated Accountants has a stand—No. 37C—at the Schoolboys' Own Exhibition, which is being held from January 4 to 11, 1947, at the Central Hall, Westminster. Members of the staff will be in attendance to answer enquiries relating to membership and the activities of the Society.





# ACCOUNTANCY

(Established 1889)

Vol. LVII (Vol. 8 New Series) No. 640.

DECEMBER, 1946

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## The Society of Incorporated Accountants and Auditors

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Admission to membership is by examination subject to satisfactory completion of articles of clerkship for five years (University graduates three years). Nine years' approved professional experience may be accepted in lieu of five years' articles. Exemption from the Preliminary Examination is granted on production of certain educational certificates. All candidates must pass the Intermediate and Final Examinations.

Some concessions may be granted in respect of whole-time war service.

There are Branches of the Society in Scotland, Ireland, Canada, Australia, and South Africa, and District Societies in all parts of England and Wales, Northern Ireland, and India. Students' Societies and Students' Sections operate throughout Great Britain and Ireland.

Members of the Society are not allowed to seek professional business by advertisements or circulars.

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29137	160 04			7.131
29137	160 05			2.140
		1349	13400	7.194
		1275	12750	11.3
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		574	8530	2.99
		556	2350	11.20
31624	423 55	1062	8445	
31624	423 56			2.14
31624	423 57			3.66
		42	2766	5.78
31629	164 30	41	4430	
31629	164 32			1.139
		144	2250	1.44
42363	256 10	288	1745	1.103
42363	256 11	128	2020	187
42363	256 14	119	1250	5.38
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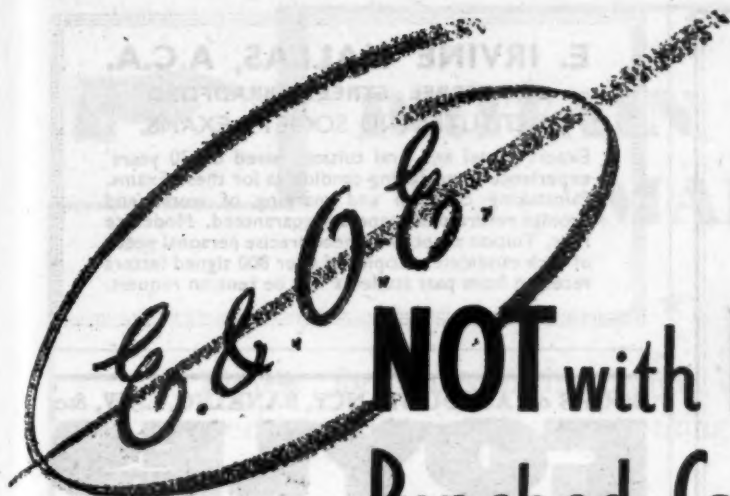
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